UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 2, 2010

or

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

Commission File No. 000-19621

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

Minnesota (State or other jurisdiction of incorporation or organization)	**41-1454591** (I.R.S. Employer Identification No.)
7400 Excelsior Boulevard, Minneapolis, Minnesota (Address of principal executive offices)	**55426-4517** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, without par value Title of each class	**NASDAQ Capital Market** Name of each exchange on which registered

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such file). ☐ Yes ☐ No

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

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

ITEM 1. BUSINESS

General

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

We are a leading retailer and recycler of major household appliances and generate revenues from:

1. Retail sales of appliances at our ApplianceSmart® Factory Outlets.
2. Fees charged for collecting and recycling appliances for utilities and other sponsors of energy efficiency programs.
3. Fees charged for recycling and replacing old refrigerators with new energy efficient refrigerators for low-income housing programs sponsored by electric utilities.
4. Selling byproduct materials, such as metals, from appliances that we recycle, including appliances collected through our ApplianceSmart Factory Outlets.

We were incorporated in Minnesota in 1983, although through our predecessors we began our appliance retail and recycling business in 1976. Our principal office is located at 7400 Excelsior Boulevard, Minneapolis, Minnesota, 55426-4517. References herein to our Company include our operating subsidiaries. (See "Exhibits.")

Industry Background

In the United States, more than 700 million major household appliances are currently in use. These appliances include:

Refrigerators	Washers
Freezers	Dryers
Ranges/ovens	Room air conditioners
Dishwashers	Dehumidifiers
Microwave ovens	Humidifiers

In 2009, factory shipments of major appliances totaled more than 59 million units in the U.S., which was down 13% from 2008 shipments.

With every new appliance sale comes the potential for disposal of the unit that was replaced. Improper disposal of old appliances threatens air, ground and water resources because many types of major appliances contain substances that can damage the environment. These harmful materials include:

1. Polychlorinated biphenyls ("PCBs"), which have toxic effects on humans and animals. Although the U.S. Environmental Protection Agency ("EPA") banned the production of PCBs in 1979, it allowed manufacturers to use their remaining inventories of PCB-containing components. Consequently, some old room air conditioners and microwave ovens have capacitors that contain PCBs, which can contaminate groundwater when released.

2. Mercury, which easily enters the body through absorption, inhalation or ingestion, potentially causing neurological damage. Freezers and washers may have mercury-containing switches in their lids.

3. Chlorofluorocarbon, hydrochlorofluorocarbon, and hydrofluorocarbon (collectively, "CFC") refrigerants, which cause long-term damage to the earth's ozone layer and may contribute to global climate change. Refrigerators, freezers, room air conditioners and dehumidifiers commonly contain CFC refrigerants.

4. CFCs having a very high ozone-depletion potential that may also be used as blowing agents in the polyurethane foam insulation of refrigeration appliances.

5. Other materials, such as oil and sulfur dioxide, that are harmful when released into the environment.

The federal government requires the recovery of CFC refrigerants upon appliance disposal and also regulates the management of hazardous materials found in appliances. Most state and local governments have also enacted laws affecting how their residents dispose of unwanted appliances. For example, many areas restrict landfills and scrap metal processors from accepting appliances unless the units have been processed to remove environmentally harmful materials. As a result, old appliances usually cannot be discarded directly through ordinary solid waste systems.

In addition to these solid waste management and environmental issues, energy conservation is another compelling reason for proper disposal of old appliances. Refrigerators manufactured today consume about one-third as much electricity as those manufactured 30 years ago and about half as much as the typical unit manufactured before 1993. Additionally, the use of second refrigerators has grown steadily in the past two decades, leading to an increase in household energy consumption. Every year, approximately 10 percent of households purchasing new refrigerators keep their old units, increasing the base of second units by 800,000 to 1 million units annually. Currently twenty-six percent of all U.S households have a second refrigerator, a rate that is growing at 1 percent per year.

Utilities have become important participants in dealing with energy inefficient appliances as a way of reducing peak demand on their systems and avoiding the capital and environmental costs of adding new generating capacity. To encourage the permanent removal of energy inefficient appliances from use, many electric utility companies sponsor programs through which their residential customers can retire working refrigerators, freezers and room air conditioners. Utility companies often provide assistance and incentives for consumers to discontinue use of a surplus appliance or to replace their old, inefficient appliances with newer, more efficient models. To help accomplish this, some utilities offer appliance replacement programs for their low-income customers, through which older model refrigerators or room air conditioners are recycled and new highly efficient ENERGY STAR® units are installed.

The EPA has been supportive of efforts by electric utilities and other entities that sponsor appliance recycling programs to ensure that the collected units are managed in an environmentally sound manner. In October 2006, the EPA launched the Responsible Appliance Disposal ("RAD") Program, a voluntary partnership program designed to help protect the ozone layer and reduce emissions of greenhouse gases. Through the RAD program, partners use best practices to recover ozone-depleting chemicals and other harmful materials from old refrigerators, freezers, room air conditioners and dehumidifiers. We were active participants in helping to design the RAD program and currently collect and submit annual reports to the EPA to document the environmental benefits our utility customers have achieved through their recycling programs.

Company Background

We started our business in 1976 as a used-appliance retailer that reconditioned old appliances to sell at our stores. Under contract with national and regional retailers of new appliances, such as Sears and Montgomery Ward, we collected the replaced appliance from the customer's residence when one of their stores delivered a new appliance in the Minneapolis/St. Paul, Miami or Atlanta market. The old appliances that we could not sell in our stores were sold to scrap metal processors.

In the late 1980s, stricter environmental regulations began to affect the disposal of unwanted appliances, and we were no longer able to take appliances that contained hazardous components to a scrap metal processor. At that time, we began to develop systems and equipment to remove the harmful materials so that metal processors would accept the appliance shells for processing.

We then offered our services for disposing of appliances in an environmentally sound manner to appliance manufacturers and retailers, waste hauling companies, rental property managers, local governments and the public.

Appliance Recycling for Energy Efficiency Programs

In 1989, we began contracting with electric utility companies to provide turnkey appliance recycling services to support their energy conservation efforts. Since that time, we have provided our services to more than 150 utilities throughout the U.S. and Canada. Current programs include:

1. A bridge contract through March 2010 with Southern California Edison ("Edison") to handle refrigerator and freezer recycling operations, extending Edison's 2006-2008 appliance recycling program, which covers fifty percent of the previous southern and central California territories that we handled under Edison's 2004-2005 program. Under terms of this agreement, Edison is responsible for advertising the program. We are negotiating a three-year contract extension, gaining back twenty-five percent of our previously reduced territory to now serve seventy-five percent of Edison's territory.

2. A contract with San Diego Gas & Electric ("SDG&E") for their 2010-2012 program to provide refrigerator, freezer and room air conditioner recycling services for their residential and small commercial customers. Under terms of this agreement, we are responsible for advertising the program.

3. A contract with Southern California Public Power Authority ("SCPPA"), which sponsors a program to replace and recycle old, inefficient refrigerators owned by low-income residents. We currently perform these services for all participating members of SCPPA, including the Los Angeles Department of Water and Power ("LADWP"). The contract runs through June 2010.

4. An agreement with WPPI Energy ("WPPI") to provide appliance recycling services through 2010. WPPI is a regional power company serving 51 customer-owned electric utilities. They supply power to 195,000 homes and businesses in Wisconsin, Upper Michigan and Iowa. WPPI is responsible for advertising this program.

5. An agreement entered into in December 2004 with Austin Energy in Texas to manage appliance recycling operations in their service territory during 2005. The contract has been extended annually and currently runs through September 2010, with an additional one-year extension at the option of Austin Energy. In 2008,

Austin Energy initiated an appliance replacement program for which we purchase and install new units and recycle the old ones. Austin Energy is the nation's ninth largest community-owned electric utility, serving 388,000 customers within the City of Austin and surrounding counties. Austin Energy is responsible for advertising this program.

6. A contract announced in June 2007 with Ontario Power Authority ("OPA") in Ontario, Canada, to recycle refrigerators, freezers and room air conditioners throughout the province. The program is administered by OPA and managed by more than seventy local electric distribution companies. This contract runs through the end of 2010. OPA is responsible for advertising this program.

7. A subcontracting agreement with Conservation Services Group ("CSG") to provide appliance recycling services to Ameren Illinois Utilities ("AIU") residential customers in Illinois. The program is administered by CSG and the contract is through May 2011. CSG is responsible for advertising the program.

8. Subcontracting agreements with ICF International to provide appliance recycling services for Southern Maryland Electrical Cooperative through December 2010 and for Baltimore Gas & Electric through February 2011. We are responsible for advertising these programs.

9. A contract to recycle refrigerators and freezers through January 2012 for Puget Sound Energy, which serves more than one million customers in the state of Washington. Puget Sound Energy is responsible for advertising the program.

10. A contract with Xcel Energy to provide refrigerator recycling services for their customers in Minnesota, Colorado and New Mexico through December 2010. Under terms of this agreement, we are responsible for advertising the program.

11. Additionally, we have appliance recycling contracts with Minnesota Power; City Water Light and Power ("CWLP"); Great River Energy; Santee Cooper; Otter Tail Power Company; and several smaller municipal utility companies.

In the past three years, we have seen a heightened interest from electric utilities that recognize the effectiveness of programs to recycle and replace energy inefficient appliances. We are aggressively pursuing this segment of customers in 2010 and expect that we will continue to submit proposals for various new utility appliance recycling and replacement programs throughout the year. However, we still have a limited ability to project revenues from new utility programs in 2010. We cannot predict recycling volumes or if we will be successful obtaining new contracts.

ApplianceSmart Factory Outlets

As of March 2010, ApplianceSmart was operating nineteen factory outlets: six in the Minneapolis/St. Paul market; one in Rochester, Minn.; four in the Columbus, Ohio, market; six in the Atlanta market; and two in the San Antonio, Texas, market. We are a major household appliance retailer with two main channels: new, in-the-box product and new, out-of-the-box product, which we call special-buy appliances. These special-buy household appliances, primarily those manufactured by Whirlpool, General Electric and Electrolux, include close-outs, factory overruns, floor samples, returned or exchanged items, and scratch-and-dent units. One example of this type of special-buy product involves manufacturer redesign, in which a current model is updated to include a few new features and is then assigned a new model number. Because the manufacturer ships only the latest models to retailers, a large quantity of the older model remains in the manufacturer's inventory. Special-buy appliances typically are not integrated into manufacturers' normal distribution channels and require a different method of management.

For many years, manufacturers relied on small appliance dealers to buy this product to sell in their stores. However, today these small retailers are struggling to compete with large appliance chains: the top 10 retailers are estimated to control 84 percent of the appliance sales market. At the same time, the expansion of big-box retailers that sell appliances has created a dramatic increase in the number of special-buy units, further straining the traditional outlet system for these appliances. Because these special-buy appliances have value, manufacturers and retailers need an efficient management system to recover their worth.

Manufacturer Supply

We have entered into purchasing contracts for new, in-the box and new, out-of-the-box appliances, which have been extended through 2010, with the following five major manufacturers:

1. Whirlpool
2. General Electric ("GE")
3. Electrolux
4. Danby
5. Bosch

There are no guarantees on the number of units that any of the manufacturers will sell us; however, we believe that purchases from these five manufacturers will provide an adequate supply of high-quality appliances for our ApplianceSmart Factory Outlets.

Key components of our current agreements include:

1. We have no guarantees for the number or type of appliances that we have to purchase.
2. The agreements may be terminated by either party with 30 days' prior written notice.
3. We have agreed to indemnify certain manufacturers for certain claims, allegations or losses concerning the appliances we sell.

Regional Processing Centers

On October 21, 2009, we entered into an Appliance Sales and Recycling Agreement (the "Agreement") with General Electric Company ("GE") acting through its GE Consumer & Industrial business. Under the Agreement, GE will sell all of its recyclable appliances generated in the northeastern United States to us, and we will collect, process and recycle such recyclable

appliances. The Agreement requires that we will only recycle, and will not sell for re-use or resale, the recyclable appliances purchased from GE. We plan to establish a regional processing center ("RPC") located in the northeastern United States at which the recyclable appliances will be processed. The term of the Agreement is for a period of six years from the first date of collection of recyclable appliances. We expect the first date of collection will be early in the second quarter of 2010.

In connection with the Agreement described above, we entered into a Joint Venture Agreement with 4301 Operations, LLC, to establish and operate the northeastern RPC.

4301 Operations has substantial experience in the recycling of major household appliances and will contribute their existing business to the joint venture. Under the Joint Venture Agreement, the parties will form a new entity to be known as ARCA Advanced Processing, LLC ("AAP") and each party will be a 50% owner of AAP. If additional RPCs are established, AAP will establish the next two RPCs and will have a right of first refusal to establish subsequent RPCs. We plan to raise debt and/or equity financing to fund our share of the capital required to form the joint venture. We plan to contribute approximately $2.0 million, including the Appliance Sales and Recycling Agreement, to the joint venture, and 4301 Operations plans to contribute their equipment and existing business to the joint venture. The joint venture plans to commence operations early in the second quarter of 2010; however, there is no assurance that operations will commence or that financing will be available on terms satisfactory to us or permitted by our current debt agreement. As of January 2, 2010, we loaned 4301 Operations $0.4 million that will be considered as a portion of our capital contribution when the joint venture commences operations.

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

Subsidiaries

ARCA Canada Inc., a Canadian corporation, is a wholly-owned subsidiary. ARCA Canada was formed in September 2006 to provide turnkey appliance recycling services for electric utility energy efficiency programs.

We were a sixty percent owner in North America Appliance Company, LLC ("NAACO"). NAACO was formed and commenced operations in June 2003 and was a retailer of special-buy appliances in Texas.

We were a sixty percent owner in Productos Duraderos de Norte America ("PDN"), a Mexican corporation. PDN was acquired in September 2006 and refurbished room air conditioners for sale through our NAACO operation in McAllen, Texas, and through our ApplianceSmart Factory Outlet stores.

During the fourth quarter of 2008, we planned and executed the shutdown of our NAACO and PDN subsidiaries. NAACO and PDN were not operating as planned and were no longer economically viable. In 2008, our supply of room air conditioners from a major manufacturer was depleted, no longer providing refurbishment opportunities for PDN and revenues for NAACO, which was the basis for our investment in these businesses. We will not have any continuing involvement or significant continuing cash flows in these businesses.

Growth Strategy

Larger factory outlet facilities offer consumers a wider selection of appliances than smaller stores do and are more efficient for us to operate. For these reasons, we intend to continue to focus our retail sales operations on larger facilities. We would consider opening new stores primarily in markets in which we currently have operations to benefit from operational and marketing efficiencies of scale. However, we will study other major consumer markets throughout the United States with the possibility of expanding our retail stores to new markets. We evaluate demographic, economic and financial information as well as the facility and proposed lease terms when considering a new store location. At the end of August 2009, we closed one store in San Antonio, Texas, when the facility lease expired, and closed and vacated our ApplianceSmart Factory Outlet store in Stockbridge, Georgia. We continue to evaluate factory outlet stores and markets and address underperforming stores with a range of outcomes from expense reductions to store closings. We do not anticipate opening any additional factory outlet stores in 2010.

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We have also seen renewed interest from sponsors of energy efficiency programs across the country that recognize the effectiveness of recycling energy inefficient appliances. At times, program sponsors may also choose to assist their customers in replacing these inefficient appliances with new, highly efficient ENERGY STAR® models. We are aggressively pursuing this segment of customers in 2010 and expect that we will continue to submit proposals for various new utility appliance recycling and replacement programs.

In 2008, we entered into an agreement to become the exclusive North American distributor for UNTHA Recycling Technology (URT), one of the world's leading manufacturers of technologically advanced refrigerator recycling systems and recycling facilities for electrical household appliances and electronic scrap. In addition to marketing these systems to the recycling industry, we intend to install a URT system at one of our higher volume appliance recycling facilities. We expect our first installation to be at our northeastern RPC.

Customers and Source of Supply

We offer reverse logistics services to manufacturers and retailers that need an efficient way to manage appliances that fall outside their normal distribution and sales channels. We also provide services for electric utility companies that offer their customers appliance recycling and replacement programs as energy conservation measures.

Appliance Manufacturers: We work with appliance manufacturers, including Whirlpool, Electrolux, GE, Bosch and Danby, to acquire the product we sell at our ApplianceSmart Factory Outlet stores. We purchase new, special-buy appliances, such as discontinued models and factory overruns, and sell the product at a significant discount to full retail prices. In addition, our participation in a national buying cooperative enables us to purchase new in-the-box appliances to fill out our mix of product.

Although we believe that our current sources for appliances are adequate to supply our retail stores and allow us to grow our sales, we face the risk that one or more of these sources could be lost.

Electric Utility Companies: We contract with utility companies and other sponsors of energy efficiency programs to provide a full range of appliance recycling and replacement services to help them achieve their energy savings goals. The contracts usually have terms of one to four years, with provisions for renewal at the option of the utility. Under some contracts, we manage all aspects, including advertising, of the appliance recycling or replacement program. Under other contracts, we provide only specified services, such as collection and recycling.

Our contracts with electric utility customers prohibit us from repairing and selling appliances we receive through their programs. Because the intent of the program is to conserve electricity, we have instituted tracking and auditing procedures to assure our customers that those appliances do not return to use.

Our pricing for energy efficiency program contracts is on a per-appliance basis and depends upon several factors, including:

1. Total number of appliances expected to be processed and/or replaced.
2. Length of the contract term.
3. Specific services the utility selects us to provide.
4. Market factors, including labor rates and transportation costs.

Currently, we have contracts for 2010 with the following utilities to handle recycling operations in their service territories:

1. Southern California Edison
2. San Diego Gas & Electric
3. WPPI Energy
4. Austin Energy
5. Southern California Public Power Authority
6. Ontario Power Authority
7. Minnesota Power
8. Ameren Illinois Utilities
9. City Water Light & Power
10. Xcel Energy
11. Santee Cooper
12. Great River Energy
13. Southern Maryland Electrical Cooperative
14. Puget Sound Energy
15. Baltimore Gas & Electric
16. Otter Tail Power Company
17. Several smaller municipal utilities

Company Operations

We provide a full range of appliance recycling support services for energy efficiency programs in the U.S. and Canada. We also purchase major appliances, primarily from appliance manufacturers, to sell through our ApplianceSmart Factory Outlets.

Many of the appliances we receive from manufacturers are still in the factory carton and ready to sell. Other appliances need repair or cosmetic work before we deliver them to our ApplianceSmart retail outlets. All appliances we sell are under factory warranty and carry a 100 percent money-back guarantee. We also offer extended warranties, appliance delivery, factory-trained technician service and free recycling of customers' replaced appliances.

Appliances that do not meet our quality standards for sale at our ApplianceSmart Factory Outlets and appliances collected through utility customers' energy conservation programs must be recycled to prevent re-use. We process and recycle these units using environmentally sound systems and techniques.

In our recycling operation, our Company-trained technicians first inspect and categorize each appliance to identify the types of hazardous materials it contains. We then process the appliances to remove and manage the environmentally hazardous substances according to all federal, state and local regulations. We deliver the processed appliances to local scrap processing facilities, where they shred and recycle the metals.

Although the potential of industry deregulation negatively affected our business with electric utilities in the middle to late 1990s, we are seeing renewed interest in appliance recycling and replacement programs for energy efficiency. We enter 2010 serving seven major utility programs and several smaller ones. We are aggressively pursuing additional utility customers, but have a limited ability to project revenues from new utility programs in 2010. We cannot predict recycling or replacement volumes or if we will be successful obtaining new contracts.

We have focused on a carefully managed growth plan to strengthen our retail segment. We opened four new factory outlets in 2008 and one in 2009. In the third quarter 2009, we closed one underperforming factory outlet in the Atlanta market and one store in San Antonio when the facility lease expired. To supply our stores with a wide selection of appliances, we will continue to seek additional sources of product. We currently operate nineteen factory outlets in strategic markets throughout the U.S. We continue to evaluate factory outlet stores and markets and address underperforming stores with a range of outcomes from expense reductions to store closings. We do not anticipate opening any additional factory outlet stores in 2010.

Principal Products and Services

We generate revenues from three sources: retail, recycling and byproduct. Retail revenues are generated through the sale of new appliances at our ApplianceSmart Factory Outlets. Recycling revenues are generated by charging fees for collecting and recycling appliances for utilities and other sponsors of energy efficiency programs. Byproduct revenues are generated by selling scrap materials, such as metal and plastics, and reclaimed CFC refrigerants from appliances we collect and recycle, including those from our ApplianceSmart stores.

The table below reflects the percentage of total revenues from continuing operations from each source for the past two fiscal years. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	2009	2008
Retail	74.1%	68.6%
Recycling	22.5%	26.7%
Byproduct	3.4%	4.7%
	100.0%	100.0%

During fiscal years 2009 and 2008, we operated two reportable segments: retail and recycling. The retail segment is comprised of sales generated through our ApplianceSmart Factory Outlets. Our recycling segment includes all fees charged for collecting, recycling and installing appliances for utilities and other customers and includes byproduct revenue, which is generated primarily through the recycling of appliances. Financial information about our segments is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 15 of "Notes to Consolidated Financial Statements."

Sales and Marketing

We use a variety of methods to promote awareness of our products and services. We believe that we are recognized as a leader in the recycling industry and in special-buy appliance retailing.

Our ApplianceSmart Factory Outlet store concept includes establishing large showrooms in metropolitan locations where we can offer consumers a selection of hundreds of appliances at each of our stores. Our visual branding consists of ample display of product, manufacturers' signage and custom-designed ApplianceSmart materials in red,

white and blue. We advertise our stores through print media, television, radio and direct mail. Through www.ApplianceSmart.com, consumers can also learn more about us on the Internet.

To evaluate the effectiveness of ApplianceSmart's current advertising venues and messages, we have engaged a consulting group to help us analyze our branding and marketing efforts that will allow ApplianceSmart to explore new directions in reaching consumers. We expect this analysis to yield valuable results by helping ApplianceSmart to expand on its current message and advertising methods.

We market our services to electric utility companies and other sponsors of energy efficiency programs by contacting prospective customers directly, delivering educational presentations at conferences for energy efficiency professionals, participating in utility industry trade shows, networking with key affiliates of electric power and environmental associations, and promoting our corporate website at www.arcainc.com. We submit sales proposals for our services to interested parties and in response to utility-issued requests for bid.

Seasonality

We experience some seasonality in retail revenues, with revenues in the second and third calendar quarters being slightly higher than revenues in the first and fourth calendar quarters.

Traditionally, our electric utility customers with multi-year programs have rolled out their programs towards the end of the first calendar quarter. Promotional activities are strong during the second and third calendar quarters, leading to higher customer demand for services during that time period. As a result, we experience a surge in business during the second and third calendar quarters, which declines through the fourth and first calendar quarters until advertising activities resume.

Competition

Our retail competition comes mainly from new-appliance and other special-buy retailers. Each ApplianceSmart Factory Outlet competes with local and national retail appliance chains, as well as with independently owned retailers. Many of these retailers have been in business longer than we have and may have significantly greater assets.

Many factors, including obtaining adequate resources to create and support the infrastructure required to operate large-scale appliance recycling programs, affect competition in the appliance recycling industry. We generally compete for contracts with several other national appliance recycling businesses and energy services management companies. We also compete with small hauling or recycling companies based in the program's service territory; however, these companies generally are not able to offer the full range of services that we provide.

We expect our primary competition for appliance recycling contracts with existing and new customers to come from a variety of sources, including:

1. Existing recycling companies.
2. Entrepreneurs entering the appliance recycling business.
3. Energy management consultants.
4. Major waste hauling companies.
5. Scrap metal processors.

In addition, utility companies and other customers may choose to provide all or some of the services required to operate their appliance recycling programs internally rather than contracting with outside vendors. We have no assurance that we will be able to compete profitably in any of our chosen markets.

Government Regulation

Federal, state and local governments regulate appliance collection, recycling and sales activities. While some requirements apply nationwide, others vary by market. The many laws and regulations that affect appliance recycling include landfill disposal restrictions, hazardous waste management requirements and air quality standards. For example, the 1990 Amendments to the Clean Air Act prohibit the venting of CFC and CFC-substitute refrigerants while servicing or disposing of appliances.

Each of our recycling facilities maintains the appropriate registrations, permits and licenses for operating at its location. We register our recycling centers as hazardous waste generators with the EPA and obtain all appropriate regional and local licenses for managing hazardous wastes. Licensed hazardous waste companies transport and recycle or dispose of the hazardous materials we generate. Our collection vehicles and our transportation employees comply with all Department of Transportation licensing requirements.

We have been recognized for our work in protecting the environment from the harmful effects of improper appliance disposal. In 2004, the EPA awarded us, along with our customer Southern California Edison, the Stratospheric Ozone Protection Award for the environmentally responsible manner in which we collect and dispose of appliances. In 2007, we were again recognized by the EPA with a Best of the Best Stratospheric Ozone Protection Award as part of an appliance recycling team responsible for "the most exceptional global contributions in the first two decades of the Montreal Protocol."

In 2007, we became a founding reporter of The Climate Registry, an organization that provides information regarding the measurement and reporting of greenhouse gas emissions to various governmental and private agencies and businesses.

In 2009, our President and Chief Executive Officer, Jack Cameron, was selected to represent the appliance recycling industry in the Climate Action Reserve's 23-member workgroup that was tasked with developing the U.S. Ozone-Depleting Substances (ODS) Project Protocol for the Destruction of Domestic High Global Warming Potential (GWP) Ozone-Depleting Substances. The Climate Action Reserve is a national offsets program working to ensure integrity, transparency and financial value in the U.S. carbon market. The protocol, which was issued on February 3, 2010, provides guidance to account for, report and verify greenhouse gas (GHG) emission reductions associated with destruction of high global warming potential ODS that would have otherwise been released to the atmosphere, including ODS used in both foam and refrigerant applications.

Our retail stores obtain all business licenses, sales tax licenses and permits required for their locations. Our delivery and service vehicles comply with all Department of Transportation licensing requirements.

Although we believe that further governmental regulation of the appliance recycling industry could have a positive effect on us, we cannot foretell the direction of future legislation. Under some circumstances, for example, further regulation could materially increase our operational costs. In addition, under some circumstances we may be

subject to contingent liabilities because we handle hazardous materials. We believe we are in compliance with all government regulations regarding the handling of hazardous materials, and we have environmental insurance to mitigate the impact of any potential contingent liability.

Employees

At March 1, 2010 we had 360 full-time employees and 18 part-time employees, distributed approximately as follows:

1. 30% of our employees, including management, provide customer service, appliance collection, transportation and processing services at our recycling centers.
2. 60% of our employees, including management, work in our factory outlet stores.
3. 10% of our employees are corporate management and support staff.

We have no union or collective bargaining agreements covering any of our employees. Our employees have never caused our operations to be disrupted by a work stoppage, and we believe that our employee relations are good.

ITEM 1A. RISK FACTORS

An investment in our Common Stock involves a high degree of risk. You should carefully consider the risks described below with respect to an investment in our shares. If any of the following risks actually occur, our business, financial condition, operating results or cash provided by operations could be materially harmed. As a result, the trading price of our Common Stock could decline, and you might lose all or part of your investment. When evaluating an investment in our Common Stock, you should also refer to the other information in this report, including our financial statements and related notes.

Risks Relating to Our Business

Our strategy of opening new retail stores may result in net losses.

Our growth strategy includes opening new retail stores. We evaluate demographic, economic and financial information in considering a new store location. We look primarily in markets where we currently have operations to benefit from additional operational and marketing efficiencies of scale. New stores take time to become profitable; we cannot assure you that any individual current or future store will attain or maintain projected profitability. We incurred a loss from continuing operations of $3.3 million or $0.73 per share in fiscal 2009 compared to income from continuing operations of $1.9 million or $0.41 per share in fiscal 2008. We have historically experienced improvement in our retail segment as our stores have become established. As illustrated in Note 15 of “Notes to Consolidated Financial Statements,” our operating loss from the retail segment was $4.2 million in fiscal 2009 compared to operating income of $0.8 million in fiscal 2008. This decline was the result of opening new factory outlets and an economic slowdown that is discussed later in “Risks Relating to Our

Business.” Our full financial information is set out in the consolidated financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Most of our revenues are derived from retail sales. However, we expect recycling revenues as a percentage of total revenues will continue to rise in the future.

Most of our revenues are derived from retail sales of appliances at our ApplianceSmart Factory Outlet stores. We currently operate nineteen ApplianceSmart Factory Outlet stores. Retail revenues have lower profit margins than recycling revenues. While we believe that our future economic results will be heavily dependent on our retail stores, we have seen a renewed interest in recycling and replacement programs and are pursuing opportunities with providers of energy efficiency services. In fiscal years 2009 and 2008, approximately 74% and 69%, respectively, of our revenues were from retail sales. We believe that recycling revenues will grow faster than retail revenues as we continue to add new recycling contracts.

We currently purchase product for resale from a limited number of suppliers.

We purchase inventory for resale from three main suppliers. While we believe that our relationships with our vendors are strong, the loss of one of these suppliers could have a negative impact on the amount and mix of product that we would be able to offer for sale, which could adversely affect our revenues and profitability.

Our revenues from recycling contracts decreased in 2009 due a planned reduction in one of our contracts and future revenues from this source are very difficult to project.

In the past, our business was dependent largely upon our ability to obtain new contracts and continue existing contracts for appliance recycling services with utility companies. Contracts with these entities generally have initial terms of one to four years, with renewal options and early termination clauses. The recycling and byproducts portion of our business decreased to 26% from 31% of total revenues for fiscal years 2009 and 2008, respectively. This decrease in fiscal 2009 compared to fiscal 2008 was partially due to a planned reduction in one of our contracts. Although we have experienced an increase in the number of utility companies requesting bids for upcoming appliance recycling programs, we are still dependent on certain customers for a large portion of our revenues. Generally, recycling revenues have a higher gross profit than retail revenues.

Three of our major utility customers, Southern California Edison Company, Ontario Power Authority and Southern California Public Power Authority, collectively accounted for approximately 17% and 23% of our total revenues for 2009 and 2008, respectively. The loss or material reduction of business from any of these major customers could adversely affect our net revenues and profitability. However, we believe we will continue to add new recycling contracts in 2010 and beyond.

We cannot assure you that our existing recycling contracts will continue, existing customers will continue to use our services at current levels or we will be successful in obtaining new recycling contracts.

Our revenues from recycling contracts are subject to seasonal fluctuations and are dependent on the utilities’ advertising and promotional activities for contracts in which we do not provide advertising services.

In our business with utility companies, we experience seasonal fluctuations that impact our operating results. Our recycling revenues are generally higher during the second and third calendar quarters and lower in the first and fourth calendar quarters, due largely to the promotional activity schedules over which we have no control in advertising programs managed by the utilities. Our staff communicates client-driven advertising activities internally in an effort to achieve an operational balance. We expect that we will continue to experience such seasonal fluctuations in recycling revenues. We experience less seasonal fluctuation in our retail business.

The joint venture we have formed does not have an operating history upon which it can be evaluated. It may never achieve profitable operations.

We have formed a 50/50 joint venture, ARCA Advanced Processing, LLC ("AAP"), to operate the initial Regional Processing Center ("RPC") under our contract with GE. AAP was recently formed and has not commenced operations. AAP is subject to all of the risks associated with a new venture, including the potential for unanticipated expenses, difficulties and delays frequently encountered in connection with the start-up of new businesses, and the competitive environment in which AAP will operate. There is no assurance that AAP will achieve profitable operations. Each additional RPC that may be established in the future will also be subject to the risks associated with a new venture.

AAP's financial performance will be dependent on market prices for recovered materials.

AAP's total revenues will be driven by the market prices for various recovered materials, which include steel, copper, aluminum, other non-ferrous metals, glass, plastic, oil, and certain types of refrigerants. Market prices for such materials may vary significantly. If market prices for such materials are less than projected, AAP may be unable to achieve profitable operations.

The volume of appliances under the contract with GE is not guaranteed. The contract with GE is terminable on 60-day notice if a material breach occurs and is not cured.

The operations of AAP and the initial RPC will be materially dependent on the volume of appliances from GE. However, GE has not guaranteed any specific volume of appliances under the contract. Also, the RPC will need significant volume in addition to the volume from GE to operate successfully. The contract with GE is for a period of six years from the first date of collection of recyclable appliances from GE's northeast delivery area, but may be terminated earlier by either party if the other party is in material breach of the contract and does not cure the breach within sixty (60) days after receiving written notice from the other party. A delay in commencing operations at the RPC, or in installing the URT system, could result in a material breach of the contract by us.

We may need new capital to fully execute our growth strategy.

Our business involves providing comprehensive, integrated appliance recycling services and developing a chain of retail stores. This commitment will require a significant continuing investment in capital equipment and leasehold improvements and could require additional investment in real estate.

Our total capital requirements will depend, among the other things discussed in this annual report, on the number of recycling centers and the number and size of retail stores operating during 2010. Currently, we have nineteen retail stores and seven recycling centers in operation. If our revenues are lower than anticipated, our expenses are higher than anticipated or our current line of credit cannot be maintained, we will require additional capital to finance our operations. In addition, we may need to provide additional capital to AAP to establish and fund its operation. Even if we are able to maintain our current line of credit, we may need additional equity or other capital in the future. Sources of additional financing, if needed in the future, may include further debt financing or the sale of equity (including the issuance of Preferred Stock) or other securities. We cannot assure you that any additional sources of financing or new capital will be available to us, available on acceptable terms, or permitted by the terms of our current debt. In addition, if we sell additional equity to raise funds, all outstanding shares of Common Stock will be diluted.

A decline in general economic conditions has led to reduced consumer demand for our products and had an adverse effect on our liquidity and profitability.

Since purchases of our merchandise are dependent upon discretionary spending by our retail customers, our financial performance is sensitive to changes in overall economic conditions that affect consumer spending. Consumer spending habits are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, gasoline prices, consumer confidence, and consumer perception of economic conditions. A slowdown in the United States economy or uncertainty as to the economic outlook has reduced discretionary spending or caused a shift in consumer

discretionary spending to other products during fiscal year 2009. These factors may likely cause us to delay or slow our expansion plans, may result in reduced sales and potentially result in excess inventories in 2010. This may, in turn, lead to increased merchandise markdowns and related costs associated with higher levels of inventory that could adversely affect our liquidity and profitability in 2010.

Our market share may be adversely impacted at any time by a significant number of competitors.

Competition for our retail stores comes primarily from retailers of new and special-buy appliances. Each of our locations will compete not only with local and national chains of new appliance retailers, many of whom have been in business longer than we have and who may have significantly greater assets, but will also be required to compete with numerous independently owned retailers of used appliances. A number of our retail operations have been opened within the past 24 months; therefore, we cannot assure you that we will be able to compete effectively in any such market.

Many factors, including existing and proposed governmental regulation, may affect competition in the appliance recycling and replacement side of our business. We generally compete with two or three companies based in the geographic area to be served, and they generally offer some of the services we provide. We expect our primary competition for 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, scrap metal processors and new- and used-appliance dealers. In addition, some of our customers, such as utility companies, may operate appliance recycling programs internally rather than contracting with us or other third parties. We cannot assure you that we will be able to compete profitably in any of our chosen markets.

Changes in governmental regulations relating to our recycling business could increase our costs of operations and adversely affect our business.

Our appliance recycling centers are subject to various federal, state and local laws, regulations and licensing requirements related to providing turnkey services for energy efficiency programs. These requirements may vary by market location and include, for example, laws concerning the management of hazardous materials and the 1990 Amendments to the Clean Air Act, which require us to recapture CFC refrigerants from appliances to prevent their release into the atmosphere.

We have registered our centers with the EPA as hazardous waste generators and have obtained required licenses from appropriate state and local authorities. We have agreements with approved and licensed hazardous waste companies for transportation and recycling or disposal of hazardous materials generated through our recycling processes. As is the case with all companies handling hazardous materials, under some circumstances we may be subject to contingent liability. We believe we are in compliance with all government regulations regarding the handling of hazardous materials, and we have environmental insurance to mitigate the impact of any potential contingent liability.

Our lender has the right to demand payment in full of the borrowings under our line of credit at any time. If it were to do so, we would not be able to pursue our growth strategy and our operations would be severely limited unless and until new financing was obtained.

We have an $18.0 million line of credit, based on the loan amendment dated February 5, 2008, with a stated maturity date of December 31, 2010. The line of credit also provides that the lender may demand payment in full of the entire outstanding balance of the loan at any time. Except for the one property we own, substantially all assets

have been pledged to secure payments under the line. The line requires that we meet certain financial covenants, provides payment penalties for noncompliance and prepayment, limits the amount of other debt we can incur, limits the amount of spending on fixed assets, and limits payments of dividends. On March 1, 2010, borrowings of $10.6 million were outstanding under the line of credit, and we had unused borrowing capacity of $0.8 million. As of January 2, 2010, we were not in compliance with certain financial covenants and received a waiver from our lender. On March 10, 2010, the interest rate on the line increased to 6.75% (the greater of prime plus 3.50 percentage points or 6.75%). In 2010, we plan to renegotiate and extend our line of credit.

We may not be able to operate successfully if we lose key personnel, are unable to hire qualified personnel or experience turnover of our management team.

We believe our operations are materially dependent upon the continued services of our present management. The loss of services of one or more members of present management, including Edward R. (Jack) Cameron, our founder, Chairman of the Board and current CEO, could adversely affect our business. We do not have employment contracts with present management. We maintain key person life insurance on Mr. Cameron in the amount of $1.0 million.

We have ongoing litigation surrounding intellectual property issues and have had a claim of infringement in a second law suit dismissed.

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

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

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

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

Risks Relating to Our Common Stock

If an active trading market for our Common Stock does not develop, the value and liquidity of your investment in our Common Stock could be adversely affected.

The trading volumes in our Common Stock on the NASDAQ Capital Market are highly variable. At any given time, there may be only a limited market for any shares of Common Stock that you purchase. Sales of substantial amounts of Common Stock into the public market at the same time could adversely affect the market price of our Common Stock.

Our principal shareholders own a large percentage of our voting stock, which will allow them to control substantially all matters requiring shareholder approval.

Currently, Jack Cameron, Chairman and Chief Executive Officer, beneficially owns approximately 7.6% of our Common Stock. Our officers and directors together beneficially hold approximately 10.5% of our Common Stock. Medallion Capital, Inc. ("Medallion") owns approximately 10.7% of our outstanding common shares. Medallion also has a non-voting right to attend and participate in all meetings of our Board of Directors. Perkins Capital Management, Inc. owns approximately 16.2% of our outstanding common shares. Because of such ownership, our management and principal shareholders may be able to significantly affect our corporate decisions, including the election of the Board of Directors.

ITEM 2. PROPERTIES

Our executive offices are located in Minneapolis, Minnesota, in a leased facility that includes approximately 11 acres of land. The building contains approximately 126,000 square feet, consisting of 27,000 square feet of office space, 66,000 square feet of operations and processing space, and 33,000 square feet of retail space (as identified below with an opening date of June 1998). We also own and use a building in Compton, California, with 11,000 square feet of office space and 35,000 square feet of warehouse and processing space. Our building in Compton, California, serves as collateral securing the outstanding mortgage loan.

We currently operate nineteen retail stores in the following locations:

Market	Opening Date	Retail Space (Sq. Ft.)	
Minnesota	June 1998	33,000	
	January 2001	24,000	
	October 2001	49,000	
	February 2003	33,000	
	December 2004	30,000	*(Also has 29,000 square feet of warehouse space)*
	May 2008	23,000	
	December 2008	31,000	
Ohio	June 1997	20,000	

	May 2001	32,000	
	March 2002	30,000	
	December 2007	30,000	
Georgia	December 2003	30,000	
	November 2004	30,000	*(Also has 58,000 square feet of production/warehouse space)*
	December 2006	46,000	
	December 2008	33,000	
	January 2009	25,000	
	November 2009	28,000	
Texas	October 2005	37,000	
	September 2008	30,000	

We lease all of our retail store facilities. We generally attempt to negotiate lease terms of five to ten years for our retail stores.

We operate seven processing and recycling centers. One is located in the facility that we own in California. The other six are leased facilities in Oakville, Ontario; St. Louis Park, Minnesota; Austin, Texas; Springfield, Illinois; Commerce City, Colorado; and Kent, Washington. Our recycling centers typically range in size from 6,000 to 42,000 square feet.

We believe that all of the facilities we occupy currently are adequate for our future needs.

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ITEM 3. LEGAL PROCEEDINGS

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

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

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

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

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

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

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PART II

ITEM 5. MARKET FOR OUR COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Common Stock

Our Common Stock trades under the symbol "ARCI" on the NASDAQ Capital Market. The following table sets forth for the periods indicated the high and low prices for our Common Stock, as reported by the NASDAQ Capital Market. These quotations reflect the daily close prices.

	High	Low
2009		
First Quarter	$ 3.65	$ 1.06
Second Quarter	2.74	1.62
Third Quarter	2.80	1.36
Fourth Quarter	2.32	1.93
2008		
First Quarter	8.95	4.86

Second Quarter	7.40	4.85
Third Quarter	7.24	4.62
Fourth Quarter	4.40	2.21

On March 12, 2010, the last reported sale price of our Common Stock on the NASDAQ Capital Market was $2.21 per share. As of March 12, 2010, there were approximately 800 beneficial holders of our Common Stock.

We have not paid dividends on our Common Stock and do not presently plan to pay dividends on our Common Stock for the foreseeable future. Our line of credit prohibits payment of dividends.

Information concerning securities authorized for issuance under equity compensation plans is included in Part III, Item 12 of this report.

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ITEM 6. SELECTED FINANCIAL DATA

The selected financial information set forth below has been derived from our consolidated financial statements and should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for the fiscal years of 2009 and 2008 and "Item 8. Financial Statements and Supplementary Data." All data is in thousands except per common share data. The data for 2005-2007 has been restated to reflect the impact of the discontinued operations of our NAACO and PDN subsidiaries.

Fiscal Years Ended	**2009**	**2008**	**2007**	**2006**	**2005**
Statements of Operations:					
Total revenues	$ 101,269	$ 110,971	$ 99,754	$ 76,857	$ 74,354
Gross profit	$ 28,377	$ 35,610	$ 32,511	$ 23,613	$ 22,214
Operating income (loss)	$ (2,161)	$ 4,035	$ 4,142	$ (959)	$ (165)
Income (loss) from continuing operations	$ (3,338)	$ 1,864	$ 2,476	$ (1,257)	$ (1,014)
Net income (loss)	$ (3,338)	$ 360	$ 2,539	$ (1,409)	$ (933)
Basic income (loss) from continuing operations per common share	$ (0.73)	$ 0.41	$ 0.56	$ (0.29)	$ (0.24)
Basic income (loss) per common share	$ (0.73)	$ 0.08	$ 0.58	$ (0.33)	$ (0.22)
Diluted income (loss) from continuing operations per common share	$ (0.73)	$ 0.41	$ 0.55	$ (0.29)	$ (0.24)
Diluted income (loss) per common share	$ (0.73)	$ 0.08	$ 0.57	$ (0.33)	$ (0.22)
Basic weighted average number of common shares outstanding	4,578	4,571	4,400	4,335	4,261
Diluted weighted average number of common shares outstanding	4,578	4,612	4,475	4,335	4,261
Balance Sheet:					
Working capital	$ 3,719	$ 5,772	$ 5,126	$ 3,026	$ 3,879
Total assets	$ 31,450	$ 37,415	$ 35,532	$ 23,913	$ 24,491
Long-term liabilities	$ 4,481	$ 5,412	$ 5,215	$ 5,377	$ 5,216
Shareholders' equity	$ 5,643	$ 7,989	$ 7,262	$ 4,142	$ 5,421

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SELECTED QUARTERLY FINANCIAL DATA

The following table sets forth certain unaudited quarterly financial data for the eight quarters ended January 2, 2010. 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. The data for all quarters presented has been restated to reflect the impact of the discontinued operations of our NAACO and PDN subsidiaries.

	Fiscal 2009			
	1st Quarter	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
Total revenues	$ 26,158	$ 25,392	$ 26,005	$ 23,714
Gross profit	$ 6,329	$ 7,585	$ 8,493	$ 5,970
Operating income (loss)	$ (1,682)	$ (144)	$ 855	$ (1,190)
Income (loss) from continuing operations	$ (1,962)	$ (411)	$ 416	$ (1,381)
Net income (loss)	$ (1,962)	$ (411)	$ 416	$ (1,381)
Basic income (loss) from continuing operations per common share	$ (0.43)	$ (0.09)	$ 0.09	$ (0.30)
Basic earnings (loss) per common share	$ (0.43)	$ (0.09)	$ 0.09	$ (0.30)
Diluted income (loss) from continuing operations per common share	$ (0.43)	$ (0.09)	$ 0.09	$ (0.30)
Diluted earnings (loss) per common share	$ (0.43)	$ (0.09)	$ 0.09	$ (0.30)
Basic weighted average number of common shares outstanding	4,578	4,578	4,578	4,578
Diluted weighted average number of common shares outstanding	4,578	4,578	4,578	4,578

	Fiscal 2008			
	1st Quarter	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
Total revenues	$ 25,702	$ 29,662	$ 29,414	$ 26,193

Gross profit	$	8,061	$	9,646	$	10,162	$	7,741
Operating income (loss)	$	607	$	1,540	$	2,145	$	(257)
Income (loss) from continuing operations	$	327	$	920	$	1,277	$	(660)
Net income (loss)	$	117	$	837	$	1,141	$	(1,735)
Basic income (loss) from continuing operations per common share	$	0.07	$	0.20	$	0.28	$	(0.14)
Basic earnings (loss) per common share	$	0.03	$	0.18	$	0.25	$	(0.38)
Diluted income (loss) from continuing operations per common share	$	0.07	$	0.20	$	0.28	$	(0.14)
Diluted earnings (loss) per common share	$	0.03	$	0.18	$	0.25	$	(0.38)
Basic weighted average number of common shares outstanding		4,556		4,571		4,578		4,578
Diluted weighted average number of common shares outstanding		4,624		4,632		4,608		4,578

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the "Selected Financial Data" and the Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this annual report. Certain information contained in the discussion and analysis set forth below and elsewhere in this annual report, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risk and uncertainties. In evaluating such statements, you should specifically consider the various factors identified in this annual report that could cause results to differ materially from those expressed in such forward-looking statements, including matters set forth in the section entitled "Risk Factors."

OVERVIEW

We are in the business of selling new major household appliances through a chain of Company-owned factory outlet stores under the name ApplianceSmart®. We also provide turnkey appliance recycling and replacement services for electric utilities and other sponsors of energy efficiency programs.

Subsidiaries. ARCA Canada Inc., a Canadian corporation, is a wholly-owned subsidiary. ARCA Canada was formed in September 2006 to provide turnkey recycling services for electric utility energy efficiency programs. The operating results of ARCA Canada have been consolidated in our financial statements. We were a sixty percent owner in North America Appliance Company, LLC ("NAACO"). NAACO was formed and commenced operations in June 2003 and was a retailer of special-buy appliances in Texas. The operating results of NAACO have been consolidated in our financial statements. We were a sixty percent owner in Productos Duraderos de Norte America ("PDN"), a Mexican corporation. PDN was acquired in September 2006 and refurbished room air conditioners for sale through our NAACO operation in McAllen, Texas, and through our ApplianceSmart Factory Outlet stores. The operating results of PDN have been consolidated in our financial statements.

Discontinued Operations. During the fourth quarter of 2008, we planned and executed the shutdown of our NAACO and PDN operations. NAACO and PDN were not operating as planned and were no longer economically viable. In 2008, our supply of room air conditioners from a major manufacturer was depleted, no longer providing refurbishment opportunities for PDN and revenues for NAACO, which was the basis for our investment in these businesses. We will not have any continuing involvement or significant continuing cash flows in these businesses. The results of operations for NAACO and PDN were included in our retail segment. All results of operations for periods presented prior to the abandonment date have been reclassified as discontinued operations.

Investments. On June 1, 2009, we completed a $0.3 million investment in Diagnostico y Administracion de Logistica Inversa, S.A. de C.V. ("DALI"), a Mexican company. DALI is a joint venture that operates a refrigerator recycling program sponsored by the Mexican government. Our investment represents a 46.3% ownership in the joint venture. The DALI joint venture is accounted for under the equity method and is presented in the consolidated balance sheets as a component of other assets. The results of the joint venture were immaterial for the fiscal year ended January 2, 2010.

On October 21, 2009, we entered into an Appliance Sales and Recycling Agreement (the "Agreement") with General Electric Company ("GE") acting through its GE Consumer & Industrial business. Under the Agreement, GE will sell all of its recyclable appliances generated in the northeastern United States to us, and we will collect, process and recycle such recyclable appliances. The Agreement requires that we will only recycle, and will not sell for re-use or resale, the recyclable appliances purchased from GE. We plan to establish a regional processing center ("RPC") located in the northeastern United States at which the recyclable appliances will be processed. The term of the Agreement is for a period of six years from the first date of collection of recyclable appliances. We expect the first date of collection will be early in the second quarter of 2010.

In connection with the Agreement described above, we entered into a Joint Venture Agreement with 4301 Operations, LLC, to establish and operate the northeastern RPC. 4301 Operations has substantial experience in the recycling of major household appliances and will contribute their existing business to the joint venture. Under the Joint Venture Agreement, the parties will form a new entity to be known as ARCA Advanced Processing, LLC ("AAP") and each party will be a 50% owner of AAP. If

additional RPCs are established, AAP will establish the next two RPCs and will have a right of first refusal to establish subsequent RPCs. We plan to raise debt and/or equity financing to fund our share of the capital required to form the joint venture. We plan to contribute approximately $2.0 million, including the Appliance Sales and Recycling Agreement, to the joint venture, and 4301 Operations plans to contribute their equipment and existing business to the joint venture. The joint venture plans to commence operations early in the second quarter of 2010; however, there is no assurance that operations will commence or that financing will be available on terms satisfactory to us or permitted by our current debt agreement. As of January 2, 2010, we loaned 4301 Operations $0.4 million that will be considered a portion of our capital contribution when the joint venture commences operations.

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

ApplianceSmart Factory Outlets. On November 16, 2009, we opened a 27,900-square-foot ApplianceSmart Factory Outlet in Cumming, Georgia, to serve the northeast suburbs of the Atlanta metropolitan area. At the end of August 2009, we closed one store in San Antonio, Texas, when the facility lease expired, and closed and vacated our ApplianceSmart Factory Outlet store in Stockbridge, Georgia. The Stockbridge store was underperforming and management executed a plan to close the store with six-and-a-half years remaining on the lease; we subsequently recognized a lease termination charge of $0.3 million in 2009. Through eight months of operation in 2009, these two stores combined generated $3.2 million in retail revenues and reported an operating loss of $0.3 million.

Sale-Leaseback Transaction. In September 2009, we completed an agreement to sell and lease back our St. Louis Park, Minnesota, facility. The building is a 126,458-square-foot facility that includes our executive offices, a processing and recycling center, and a retail store. Pursuant to the agreement entered into on August 11, 2009, we sold our St. Louis Park building to the purchaser for $4.6 million and leased the building back over an initial term of five years. The sale of the building resulted in $2.0 million cash after payment of the outstanding mortgage and closing costs. We used the net cash proceeds to pay down our line of credit. In connection with the transaction, we recognized a deferred gain on transaction of $2.4 million that will be amortized over the initial lease term.

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

KEY COMPONENTS OF RESULTS OF OPERATIONS

Revenues. We generate revenues from three sources: retail, recycling and byproduct. Retail revenues are generated through the sale of new of appliances at our ApplianceSmart Factory Outlet stores. Recycling revenues are generated by charging fees for collecting and recycling appliances for utilities and other sponsors of energy efficiency programs. Recycling revenues also include fees charged for recycling and replacing old refrigerators with new energy efficient refrigerators for two low income housing programs sponsored by electric utilities. Byproduct revenues are generated by selling recovered materials, such as metals and plastics, and reclaimed chlorofluorocarbons ("CFC") refrigerants, from appliances we collect and recycle, including appliances from our ApplianceSmart Factory Outlet stores.

Cost of Revenues. Cost of revenues includes all costs related to the purchase of inventory, including freight, costs related to receiving and distribution of inventory, and costs related to delivery and service of inventory after it is sold to the consumer. Also, the costs related to recycling appliances, such as customer service, transportation and processing, and the cost of refrigerators purchased for our replacement programs, are included in the cost of revenues. Depreciation expense related to buildings and equipment from our recycling centers is presented in cost of revenues.

Selling, General and Administrative Expenses. Selling, general and administrative expenses are comprised primarily of employee compensation and benefits (including share-based compensation), occupancy costs, advertising, bank processing charges, professional services and depreciation.

Interest Expense. Interest expense is comprised of interest charges related to borrowings under our line of credit, mortgages on our Minnesota and California buildings and other long-term obligations, primarily capital leases. In 2009, we paid off the mortgage on our Minnesota building.

Segments. We operate two reportable segments: retail and recycling. The retail segment is comprised of income generated through our ApplianceSmart Factory Outlet stores. Our recycling segment includes all fees charged and costs incurred for collecting, recycling and installing appliances for utilities and other customers and includes byproduct revenue, which is primarily generated through the recycling of appliances. Retail revenues typically have lower profit margins than recycling revenues.

Retail Segment. We operated nineteen factory outlet stores at the end of both 2009 and 2008. Our nineteen factory outlet stores are located in convenient, high-traffic locations in Georgia, Minnesota, Ohio and Texas. In 2009, we opened one new factory outlet store in Cumming, Georgia, terminated the lease and closed one store in Stockbridge, Georgia, and closed one store in San Antonio, Texas, when the lease expired.

Recycling Segment. We operate seven processing and recycling centers, which are located in Minnesota, California, Texas, Illinois, Colorado, Washington and Ontario, Canada. We are actively pursuing opportunities to support energy efficiency programs run by electric utility companies.

RESULTS OF OPERATIONS

The following table sets forth our consolidated financial data as a percentage of total revenues for the fiscal years 2009 and 2008:

	2009	2008
Revenues	100.0%	100.0%
Cost of revenues	72.0	67.9
Gross profit	28.0	32.1
Selling, general and administrative expenses	30.2	28.5
Operating income	(2.2)	3.6
Other income (expense):		
Interest expense, net	(1.1)	(1.2)
Income (loss) from continuing operations before income taxes	(3.3)	2.4
Provision for income taxes	0.0	0.7
Income (loss) from continuing operations	(3.3)	1.7
Income (loss) from discontinued operations, net of income taxes	0.0	(0.7)
Loss on disposal of discontinued operations, net of income taxes	0.0	(0.6)
Net (loss) income	(3.3)%	0.4%

The following table sets forth the key results of operations by segment for the fiscal years 2009 and 2008 (dollars in millions):

	2009	2008	% Change
Revenues:			
Retail	$ 75.5	$ 77.9	(3.0)%
Recycling	25.8	33.1	(22.2)%
Total revenues	$ 101.3	$ 111.0	(8.7)%
Operating income (loss):			
Retail	$ (4.2)	$ 0.8	(613.4)%
Recycling	1.8	5.3	(66.8)%
Unallocated corporate costs	0.2	(2.1)	111.5%
Total operating income (loss)	$ (2.2)	$ 4.0	(153.6)%

Revenues. Revenues for the fiscal years of 2009 and 2008 were as follows (dollars in millions):

	2009	2008	% Change
Retail	$ 75.0	$ 76.2	(1.5)%
Recycling	22.8	29.6	(23.0)%
Byproduct	3.5	5.2	(33.2)%
	$ 101.3	$ 111.0	(8.7)%

Our total revenues for 2009 decreased $9.7 million or 8.7% from $111.0 million in 2008. Retail segment revenues accounted for 75% of total revenues in 2009 compared to 70% in 2008. The decline in 2009 revenues is attributed primarily to the recycling segment. In 2009, recycling segment revenues declined $7.3 million or 22.2% compared to 2008. Retail segment revenues were down $2.4 million or 3.0% in 2009 compared to 2008. Recycling segment revenues and retail segment revenues each include a portion of byproduct revenues.

Retail Revenues. Our retail revenues for 2009 decreased $1.2 million or 1.5% from $76.2 million in 2008. The decline in retail revenues was due primarily to price compression, lower store traffic and the four-month impact of closing two ApplianceSmart Factory Outlets, which was partially offset by the new factory outlet stores opened during the past twelve months. New-store revenues were $9.4 million while comparable-store revenues were down 12.1% or $8.5 million compared to the same period in 2008. Fiscal 2009 included 52 weeks compared to 53 weeks in 2008. Normalizing for the additional week in fiscal 2008, comparable-store revenues decreased 10.5%. The closing of two factory outlet stores contributed to a decline in retail revenues of $1.8 million compared to the same period of 2008. We believe retail revenues will increase in the first quarter of 2010 as a result of the government stimulus rebates to purchase ENERGY STAR® appliances. We cannot predict the extent and length of the current economic slowdown and cutback in consumer spending or the potential impact of the appliance stimulus rebates in 2010. We continue to evaluate factory outlet stores and markets and address underperforming stores with a range of outcomes from expense reductions to store closings.

Our factory outlets carry a wide range of new in-the-box and new out-of-the-box appliances, including manufacturer closeouts, factory overruns, floor samples, returned or exchanged items, open-carton items, and scratch and dent appliances.

We continue to purchase the majority of new in-the-box and new out-of-the-box appliances from Whirlpool, GE and Electrolux. We have no minimum purchase requirements with any of these manufacturers. We believe purchases from these three manufacturers will provide an adequate supply of high-quality appliances for our retail factory outlets; however, there is a risk that one or more of these sources could be curtailed or lost.

Recycling Revenues. Our recycling revenues for 2009 decreased $6.8 million or 23.0% from $29.6 million in 2008. The decrease was due primarily to a planned volume reduction for one contract in California and lower recycling volumes on other contracts, combined with a later-than-anticipated start and a lower level of sign-ups from a major utility's annual

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appliance replacement program in 2009. In 2009, we added several new recycling contracts and our Illinois recycling center was operating for the entire year compared to 2008, which partially offset the planned volume reduction in California. We are aggressively pursuing new appliance recycling programs but cannot predict if we will be successful in signing new contracts or renewing existing contracts.

Byproduct Revenues. Our byproduct revenues for 2009 decreased $1.7 million or 33.2% from $5.2 million in 2008. The decrease was due primarily to depressed scrap metal prices during the first three quarters of 2009 compared to the same period of 2008 and, to a lesser extent, lower recycling volumes. In the fourth quarter of 2009, scrap metal prices did start to increase but were still below prior year weighted-average market prices for the full year compared to 2008. We do not expect scrap metal prices to fluctuate significantly in 2010 as compared to fourth quarter 2009 levels.

Gross Profit. Our overall gross profit in 2009 decreased $7.2 million or 20.3% from $35.6 million in 2008. Our gross profit as a percentage of total revenues was 28% in 2009 compared to 32% in 2008. The decline was due primarily to price compression on product in our retail segment to remain competitive with other retailers during the current economic downturn. Gross profit in 2009 for the retail segment was 25.4% of the related revenues compared to 31.8% in 2008. Gross profit in 2009 for the recycling segment was 35.6% of the related revenues compared to 32.6% in 2008. The increase in gross profit for the recycling segment was due to cost-saving efforts in several areas, including labor, transportation, various operating costs, non-renewal of two off-site warehouse leases, improving revenues and profitability for some of the recycling contracts that existed in both 2008 and 2009, and improving the economic model for some of the new recycling contracts. Recycling gross profit percentages are typically higher than retail gross profit percentages. Our gross profit as a percentage of total revenues for future periods can be affected favorably or unfavorably by numerous factors, including:

1. The mix of retail products we sell.
2. The prices at which we purchase product from the major manufacturers who supply product to us.
3. The volume of appliances we receive through our recycling contracts.
4. The volume and price of scrap metals, plastics and reclaimed CFCs.

Unless we can significantly increase our appliance purchasing and sales volume, resulting in higher level rebates, or sign substantial recycling contracts utilizing our current recycling facilities, we believe gross profit percentages in 2010 will remain consistent with 2009 for our recycling segment with moderate improvement in our retail segment.

Selling, General and Administrative Expenses. Our selling, general and administrative ("SG&A") expenses for 2009 decreased $1.0 million or 3.3% from $31.6 million in 2008. Our SG&A expenses as a percentage of total revenues increased to 30% in 2009 compared to 29% in 2008. Selling expenses increased $1.2 million to $21.1 million in 2009 from $19.9 million in 2008. The increase in selling expenses was due primarily to operating costs related to having more factory outlet stores open throughout 2009 compared to 2008. We also recorded a $0.3 million lease termination charge in 2009 related to closing our factory outlet store in Stockbridge, Georgia. General and administrative expenses decreased $2.2 million to $9.5 million in 2009 from $11.7 million in 2008. The decrease in general and administrative expenses was due primarily to cost-containment initiatives implemented throughout 2009, including reducing corporate expenses over $1.0 million as a result of cost-cutting in various areas, including process improvements, salary reductions and headcount eliminations. We expect SG&A expenses to remain consistent in 2010 as a percentage of total revenues compared to 2009.

Interest Expense. Interest expense decreased $0.2 million to $1.2 million in 2009 compared to $1.4 million in 2008. The decrease was due primarily to reducing the weighted average balance on our line of credit and, to a lesser extent, a decline in the weighted average interest rate from 6.83% in 2008 to 6.25% in 2009. We used the $2.0 million net cash proceeds from the selling and leasing back of our St. Louis Park, Minnesota, facility to pay down our line of credit. The annual interest expense savings from paying off our St. Louis Park facility mortgage is approximately $0.1 million. We cannot predict our 2010 borrowings or what will happen with interest rates in 2010.

Provision for Income Taxes. Our provision for income taxes for 2009 decreased $0.7 million from $0.7 million in 2008. The decline is partly the result of recording a discrete item in the second quarter of 2009 related to additional Canadian tax deductions determined by completing a detailed transfer pricing study and partly the result of lower taxable income from our Canadian operations in 2009 in comparison to 2008. We recognized a tax benefit of approximately $0.2 million related

solely to our Canadian operations compared to the original tax provision estimate for fiscal 2008. We also recorded a provision for income taxes of $0.2 million in 2009 related to taxable income generated by our Canadian operations. As of January 2, 2010 and January 3, 2009, we recorded cumulative valuation allowances of $2.4 million and $2.2 million, respectively, against our U.S. net deferred tax assets due to the uncertainty of their realization. The realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to be available to reduce taxable income.

Discontinued Operations. During the fourth quarter of 2008, we planned and executed the shutdown of our NAACO and PDN operations. NAACO and PDN were not operating as planned and were no longer economically viable. In 2008, our supply of room air conditioners from a major manufacturer was depleted, no longer providing refurbishment opportunities for PDN and revenues for NAACO, which was the basis for our investment in these businesses. We will not have any continuing involvement or significant continuing cash flows in these businesses. The results of operations for NAACO and PDN were included in our retail segment and have been reclassified as discontinued operations. During the fiscal year ended January 3, 2009, NAACO and PDN had revenues of $0.8 and a loss before taxes of $0.9 million. We recorded a loss on the disposal of NAACO and PDN of $0.7 million, net of taxes in 2008, which consisted of termination costs and the write-down of certain assets to fair value upon the abandonment of the operations in December.

LIQUIDITY AND CAPITAL RESOURCES

Principal Sources and Uses of Liquidity. Our principal sources of liquidity are cash from operations and borrowings under our line of credit. Our principal liquidity requirements consist of long-term debt obligations, capital expenditures and working capital. Our cash and cash equivalents as of January 2, 2010 were $2.8 million compared to $3.5 million as of January 3, 2009. The reduction in our cash and cash equivalents balance is related primarily to restricted cash required by our credit card processor in 2009. Our working capital decreased to $3.7 million for the year ended January 2, 2010 compared to $5.8 million for the year ended January 3, 2009.

Net Cash Provided by Operating Activities. Our net cash provided by operating activities was $1.3 million in 2009 compared to $1.6 million in 2008. The $0.3 million decline in net cash provided by operating activities was primarily the result of our net loss, which was almost entirely offset by reductions in inventory and accounts receivable.

Net Cash Provided by (Used in) Investing Activities. Our net cash provided by investing activities was $2.8 million in 2009 compared to net cash used in investing activities of $0.8 million in 2008. In July 2009, we were required by our credit card processor to maintain a deposit of $0.7 million to cover chargebacks, adjustments, fees and other charges that may be due from us. The deposit is included in restricted cash on the consolidated balance sheet. The net cash provided by investing activities in 2009 was due primarily to proceeds from selling our St. Louis Park, Minnesota, facility and was partially offset by the credit card processor deposit, capital expenditure purchases of $0.5 million and joint venture investments of $0.6 million. The net cash used in investing activities for 2008 was related primarily to the purchase of computer equipment, phone systems, leasehold improvements to support our new store openings and recycling equipment to support recycling contracts. We did not have any material purchase commitments for assets as of January 2, 2010 or through March 1, 2010. However, we expect to require additional capital of $2.0 million to support our investment in the joint venture with 4301 Operations, LLC.

Net Cash Provided by (Used in) Financing Activities. Our net cash used in financing activities was $4.9 million in 2009 compared to net cash provided by financing activities of $0.4 million in 2008. The net cash used in financing activities for 2009 resulted primarily from using the $4.6 million proceeds from the sale of our St. Louis Park, Minnesota, building to pay off the $2.6 million mortgage on the building, and the remaining $2.0 million was used to pay down our line of credit. The net cash provided by financing activities in 2008 was due primarily to borrowings under our line of credit, partially offset by payments on our long-term debt obligations.

Outstanding Indebtedness. As of January 2, 2010, we had an $18.0 million line of credit with a lender. The line was increased from $16.0 million to $18.0 million on February 5, 2008. The interest rate on the line as of January 2, 2010 was 6.25% (the greater of prime plus 3.00 percentage points or 6.25%). The amount of borrowings available under the line of credit is based on a formula using receivables and inventories. We may not have access to the full $18.0 million line of

credit due to a borrowing base formula determined using our receivables and inventories. The outstanding balance and unused borrowing capacity were $12.4 million and $0.1 million, respectively, as of January 2, 2010. On March 1, 2010, borrowings of $10.6 million were outstanding under the line of credit, and we had unused borrowing capacity of $0.8 million. The line of credit has a stated maturity date of December 31, 2010, if not renewed, and provides that the lender may demand payment in full of the entire outstanding balance of the loan at any time. The line of credit is secured by substantially all our assets and requires minimum monthly interest payments of $58,000, regardless of the outstanding principal balance. The lender is also secured by an inventory repurchase agreement with Whirlpool Corporation for purchases from Whirlpool only. The line requires that we meet certain financial covenants, provides payment penalties for noncompliance and prepayment, limits the amount of other debt we can incur, limits the amount of spending on fixed assets and prohibits payments of dividends. On March 10, 2010, the interest rate on the line increased to 6.75% (the greater of prime plus 3.50 percentage points or 6.75%). As of January 2, 2010, we were not in compliance with certain financial covenants and received a waiver from the lender. In 2010, we plan to renegotiate and extend our line of credit.

In 2008, we entered into a master equipment lease with a lender providing up to $0.3 million in available funds. As of January 3, 2009, we had utilized the entire lease line to fund equipment for factory outlets stores. In 2009, we entered into a master equipment lease with a lender providing up to $0.2 million in available funds. As of January 2, 2010, we had utilized the entire lease line to fund equipment and displays for factory outlets stores.

As of January 2, 2010, we had long-term obligations of $2.5 million, consisting of mortgages on our California building along with various financings, primarily consisting of capital leases.

The future annual maturities of long-term obligations are as follows (in millions):

2010	$	0.5
2011		0.4
2012		0.2
2013		1.4
	$	2.5

Contractual Obligations. The following table represents our contractual obligations including interest, except for the potential interest on the line of credit (in millions):

	Total	Less Than One Year	1-3 Years	3-5 Years	More Than Five Years
Line of credit	$ 12.4	$ 12.4	$ —	$ —	$ —
Mortgage	1.9	0.2	0.4	1.3	—
Capital lease and other financing obligations	1.0	0.5	0.5	—	—
Operating lease obligations	26.2	4.5	8.9	7.1	5.7

We believe, based on the anticipated sales per retail store, the anticipated revenues from our recycling contracts and our anticipated gross profit, that our cash balance, anticipated funds generated from operations and our current line of credit will be sufficient to finance our operations, long-term debt obligations and capital expenditures through at least December 2010. Our total capital requirements for 2010 will depend upon, among other things as discussed below, the number and size of retail stores operating during the fiscal year, the recycling volumes generated from recycling contracts in 2010 and our needs related to the establishment of our joint venture with 4301 Operations, LLC. Currently, we have nineteen retail stores and seven recycling centers in operation. We may need additional capital to finance our operations if our revenues are lower than anticipated, our expenses are higher than anticipated or we pursue new opportunities. 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 financing opportunities. There can be no assurance that such additional sources of financing will be available on terms satisfactory to us or permitted by our current debt agreement.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our discussion of the financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of any contingent assets and liabilities at the date of the financial statements. Management regularly reviews its estimates and assumptions, which are based on historical factors and other factors that are believed to be relevant under the circumstances. Actual results may differ from these estimates under different assumptions, estimates or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. See Note 3 of "Notes to Consolidated Financial Statements" for additional disclosure of the application of these and other accounting policies.

Revenue Recognition. We recognize revenue from appliance sales in the period the consumer purchases and pays for the appliance, net of an allowance for estimated returns. We recognize revenue from appliance recycling when we collect and process a unit. We recognize byproduct revenue upon shipment. We recognize revenue on extended warranties with retained service obligations on a straight-line basis over the period of the warranty. On extended warranty arrangements that we sell but others service for a fixed portion of the warranty sales price, we recognize revenue for the net amount retained at the time of sale of the extended warranty to the consumer. We include shipping and handling charges to customers in revenue, which is recognized in the period the consumer purchases and pays for delivery. Shipping and handling costs that we incur are included in cost of revenues. The application of our revenue recognition policy does not involve significant uncertainties and is not subject to accounting estimates or assumptions having significant sensitivity to change.

Product Warranty. We provide a warranty for the replacement or repair of certain defective units. Our standard warranty policy requires us to repair or replace certain defective units at no cost to our customers. We estimate the costs that may be incurred under our warranty and record an accrual in the amount of such costs at the time we recognize product revenue. Factors that affect our warranty accrual for covered units include the number of units sold, historical and anticipated rates of warranty claims on these units, and the cost of such claims. We periodically assess the adequacy of our recorded warranty accrual and adjust the amounts as necessary. Historically, our actual experience has not differed significantly from our estimates.

Trade Receivables. We carry trade receivables at the original invoice amount less an estimate made for doubtful accounts based on a monthly review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. We write off trade receivables when we deem them uncollectible. We record recoveries of trade receivables previously written off when we receive them. We consider a trade receivable to be past due if any portion of the receivable balance is outstanding for more than ninety days. We do not charge interest on past due receivables.

Inventories. Our inventories, consisting principally of appliances, are stated at the lower of cost, determined on a specific identification basis, or market. We provide estimated provisions for the obsolescence of our appliance inventories, including adjustments to market, based on various factors, including the age of such inventory and our management's assessment of the need for such provisions. We look at historical inventory agings and margin analysis in determining our provision estimate. Historically, our actual experience has not differed significantly from our estimates.

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

Share-Based Compensation. We recognize compensation expense on a straight-line basis over the vesting period for all share-based awards granted on or after January 1, 2006, and for previously granted awards not yet vested as of January 1, 2006. We use the Black-Scholes option pricing model to determine the fair value of awards at the grant date. We calculate the expected volatility for stock options and awards using historical volatility. We estimate a 0%-5% forfeiture rate for stock options issued to all employees and Board of Directors members, but will continue to review these estimates in future periods. The risk-free rates for the expected terms of the stock options are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life represents the period that the stock option awards are expected to be outstanding. The expected dividend yield is zero as we have not paid or declared any cash dividends on our Common Stock.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles

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

Consolidation of Variable Interest Entities

On January 3, 2010, we plan to adopt new accounting guidance related to consolidation of variable interest entities. The new guidance addresses the effects of eliminating the qualified special purpose entity concept and responds to concerns about the application of accounting guidance related to the consolidation of variable interest entities,

including concerns over the transparency of enterprises' involvement with variable interest entities. The new guidance is effective for fiscal years beginning after November 15, 2009. We do not expect the new guidance to have a material impact on the preparation of our consolidated financial statements.

Accounting for Transfers of Financial Assets

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

Subsequent Events

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

subsequent events. The adoption and the related amendment thereto of the new guidance did not have a material effect on our results of operations or financial position.

Disclosures About Derivative Instruments and Hedging Activities

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

Noncontrolling Interests in Consolidated Financial Statements

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

Business Combinations

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

FORWARD-LOOKING STATEMENTS

Statements contained in this annual report regarding our 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 our operations will be affected primarily by the speed at which individual retail outlets reach profitability, the volume of appliance retail sales and the strength of energy conservation recycling programs. Any forward-looking information will also be affected by our continued ability to purchase product from our suppliers at acceptable prices, the ability of individual retail stores to meet planned revenue levels, the rate of growth in the number of retail stores, costs and expenses being realized at higher than expected levels, our ability to secure an adequate supply of special-buy appliances for resale, the ability to secure appliance recycling contracts with sponsors of energy efficiency programs, the ability of customers to supply units under their recycling contracts with us, and the continued availability of our current line of credit.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk and Impact of Inflation

Interest Rate Risk. We do not believe there is any significant risk related to interest rate fluctuations on our long-term fixed-rate debt. There is interest rate risk on the line of credit, since our interest rate floats with prime. The outstanding balance on our line of credit as of January 2, 2010 was approximately $12.4 million. Although the borrowings on the line of credit are subject to a minimum interest rate of 6.25% (amended to 6.75% on March 10, 2010), based on average floating rate borrowings, a hypothetical 100 basis point change in the applicable interest rate would have caused our interest expense to change by approximately $0.1 million.

Foreign Currency Exchange Rate Risk. We currently generate revenues in Canada. The reporting currency for our consolidated financial statements is U.S. dollars. It is not possible to determine the exact impact of foreign currency exchange rate changes; however, the effect on reported revenue and net earnings can be estimated. We estimate that the overall strength of the U.S. dollar against the Canadian dollar had an unfavorable impact on revenue of approximately $1.0 million in fiscal 2009. In addition, we estimate that such strength had an unfavorable impact of approximately $0.4 million on our net income in the fiscal year 2009. We do not currently hedge foreign currency fluctuations and do not intend to do so for the foreseeable future.

We do not hold any derivative financial instruments; nor do we hold any securities for trading or speculative purposes.

Also, we believe the decline in the housing and credit markets could continue to adversely affect buying habits of our retail segment customers in 2010.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Schedule II, Valuation and Qualifying Accounts is included in Part IV, Item 15 of this Annual Report on Form 10-K.

Selected Quarterly Financial Data is presented in Item 6 of this Annual Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Appliance Recycling Centers of America, Inc. and Subsidiaries as of January 2, 2010 and January 3, 2009 and the results of their operations and cash flows for the fiscal years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, MN
March 17, 2010

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

	January 2, 2010	January 3, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,799	$ 3,498
Accounts receivable, net of allowance of $41 and $292, respectively	4,252	6,056
Inventories, net of reserves of $519 and $115, respectively	16,785	18,834
Deferred income taxes	677	448
Other current assets	532	950
Total current assets	25,045	29,786
Property and equipment, net	4,139	6,967
Restricted cash	700	—
Deferred income taxes	—	177

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

See Notes to Consolidated Financial Statements.

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

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

See Notes to Consolidated Financial Statements.

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

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

Comprehensive loss is as follows:

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

See Notes to Consolidated Financial Statements.

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

	For the fiscal year ended	
	January 2, 2010	January 3, 2009
Operating activities		
Net income (loss)	$ (3,338)	$ 360
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities:		
Loss on disposal of discontinued operations	—	692
Depreciation and amortization	1,287	1,123
Amortization of deferred gain	(122)	—
Provision for bad debts	69	264
Share-based compensation	578	529
Deferred income taxes	(58)	72
Other	88	—
Changes in assets and liabilities:		
Accounts receivable	1,735	3,570
Inventories	2,094	(5,041)
Other current assets	418	45
Other assets	12	(4)
Accounts payable and accrued expenses	(1,268)	(164)
Income taxes payable	(159)	203
Net cash flows provided by operating activities	1,336	1,649
Investing activities		
Purchase of property and equipment	(509)	(812)
Increase in restricted cash	(700)	—
Proceeds from sale of building and equipment	4,635	—
Investment in DALI	(263)	—
Loan to 4301 Operations	(375)	—
Net cash flows provided by (used in) investing activities	2,788	(812)
Financing activities		
Checks issued in excess of cash in bank	410	(310)
Net borrowings (payments) under line of credit	(2,108)	942
Payments on long-term obligations	(3,214)	(482)
Proceeds from stock option exercises	—	217
Net cash flows provided by (used in) financing activities	(4,912)	367
Effect of changes in exchange rate on cash and cash equivalents	89	(483)
Increase in cash and cash equivalents	(699)	721

Cash and cash equivalents at beginning of period		3,498		2,777
Cash and cash equivalents at end of period	$	2,799	$	3,498
Supplemental disclosures of cash flow information				
Cash payments for interest	$	1,161	$	1,385
Cash payments for income taxes, net	$	220	$	397
Non-cash investing and financing activities				
Equipment acquired under capital lease	$	259	$	518
Deferred gain on sale-leaseback of building	$	2,436	$	—
Issuance of warrant in connection with recycling contract	$	479	$	—

See Notes to Consolidated Financial Statements.

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

1. Nature of Business and Basis of Presentation

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

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

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

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

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

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

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

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

Cash and cash equivalents, accounts receivable and accounts payable: Due to their nature and short-term maturities, the carrying amounts approximate fair value.

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

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

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported

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

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

2. Recent Accounting Pronouncements

Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles

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

Consolidation of Variable Interest Entities

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

Accounting for Transfers of Financial Assets

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

Subsequent Events

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

Disclosures about Derivative Instruments and Hedging Activities

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

Noncontrolling Interests in Consolidated Financial Statements

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

Business Combinations

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

3. Significant Accounting Policies

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

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

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

	January 2, 2010	January 3, 2009
Finished goods	$ 17,304	$ 18,949
Less provision for inventory obsolescence	(519)	(115)
	$ 16,785	$ 18,834

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

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

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

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

Property and equipment consists of the following:

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

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

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

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

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

based on the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, we recognize an impairment loss at that time. We measure an impairment loss by comparing the amount by which the carrying value exceeds the fair value (estimated discounted future cash flows or appraisal of assets) of the long-lived assets. We recognized no impairment charges during the fiscal years ended January 2, 2010 and January 3, 2009.

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

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

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

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

	For the fiscal year ended	
	January 2, 2010	January 3, 2009
Beginning Balance	$ 91	$ 80
	79	87
Standard accrual based on units sold		
Actual costs incurred	(16)	(4)
Periodic accrual adjustments	(87)	(72)
Ending Balance	$ 67	$ 91

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

Share-based compensation: We recognize compensation expense on a straight-line basis over the vesting period for all share-based awards granted. We use the Black-Scholes option pricing model to determine the fair value of awards at the grant date. We calculate the expected volatility for stock options and awards using historical volatility. We estimate a 0%-5% forfeiture rate for stock options issued to all employees and Board of Directors members, but will continue to review these estimates in future periods. The risk-free rates for the expected terms of the stock options are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life represents the period that the stock option awards are expected to be outstanding. The expected dividend yield is zero as we have not paid or declared any cash dividends on our Common Stock. Based on these valuations, we recognized share-based compensation expense of $578 and $529 for the fiscal years ending January 2, 2010 and January 3, 2009, respectively. We estimate that the expense for fiscal 2010 will be

approximately $177 and immaterial thereafter, based on the value of options outstanding as of January 2, 2010. This estimate does not include any expense for additional options that may be granted and vest during 2010.

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

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

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

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

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

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

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

4. Sale-Leaseback Transaction

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

5. Discontinued Operations

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

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6. Investments

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

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

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

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

7. Other Assets

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

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

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8. Accrued Expenses

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

	January 2, 2010	January 3, 2009
Compensation and benefits	$ 868	$ 1,565
Accrued recycling incentive checks	1,232	1,110
Accrued rent	1,176	461
Warranty expense	67	91
Accrued payables	350	509
Current portion of deferred gain on sale-leaseback of building	488	—
Other	220	337

	$ 4,401	$ 4,073

9. Line of Credit

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

10. Long-Term Debt Obligations

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

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

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

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

2010	$ 544
2011	412
2012	197
2013	1,350
2014	4
	$ 2,507

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

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

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

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

11. Commitments and Contingencies

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

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

2010	$ 4,534
2011	4,541
2012	4,349
2013	3,966

2014		3,130
2015 and thereafter		5,734
	$	26,254

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

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

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

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

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

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

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

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

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12. Income Taxes

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

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

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

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

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

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

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

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

	January 2, 2010	January 3, 2009
Current assets	$ 677	$ 448
Non-current assets	—	177
Non-current liabilities	(691)	(520)
	$ (14)	$ 105

At January 2, 2010, we had a full valuation allowance against our U.S. deferred tax assets to reduce the total to an amount our management believes is appropriate. Realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to be available to reduce taxable income. The valuation allowance increased in the current year primarily as a result of taxable losses generated during the year from U.S. sources and was partially offset by the reversal of deferred tax assets as a result of a change in state tax law. In the future, when we believe we can reasonably estimate future operating results and those estimated results reflect taxable income, the amount of deferred tax assets considered reasonable could be adjusted by a reduction of the valuation allowance.

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

Future utilization of net operating loss (“NOL”) and tax credit carryforwards is subject to certain limitations under provisions of Section 382 of the Internal Revenue Code. This section relates to a 50 percent change in control over a three-year period. We believe that the issuance of Common Stock during 1999 resulted in an “ownership change” under Section 382. Accordingly, our ability to use NOL and tax credit carryforwards generated prior to February 1999 is limited to approximately $56 per year.

At January 2, 2010, we had federal NOL carryforwards of approximately $8,707 ($6,639 of which is subject to IRC section 382 limitations) and credits for general business credits of $13. In addition to general business credits we also had alternative minimum tax credits carried forward of approximately $310. We also had state NOL carryforwards of $8,862 ($2,642 of which is subject to IRC section 382 limitations). The NOL carryforwards are available to offset future taxable income or reduce taxes payable through 2027. These loss carryforwards will begin expiring in 2016. The general business credits will expire in 2013. We previously wrote off NOLs related to IRC section 382 limits against the valuation allowance.

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

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

2026	1,357
2029	711

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

It is our practice to recognize interest related to income tax matters as a component of interest expense and penalties as a component of selling, general and administrative expense. As of January 2, 2010, we had an immaterial amount of accrued interest and penalties.

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

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

13. Shareholders' Equity

Stock options: Our 2006 Stock Option Plan (the "2006 Plan") permits the granting of incentive stock options meeting the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, and nonqualified options that do not meet the requirements of Section 422. The 2006 Plan has 600 shares available for grant. As of January 2, 2010, 380 options were outstanding to employees and non-employee directors and 15 options have been exercised under the 2006 Plan. Our Restated 1997 Stock Option Plan (the "1997 Plan") has expired, but the options outstanding under the expired 1997 Plan continue to be exercisable in accordance with their terms. As of January 2, 2010, options to purchase an aggregate of 33 shares were outstanding under the 1997 Plan. Options granted to employees typically vest over two years while grants to non-employee directors vest in six months.

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

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

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

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

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

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

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

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

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

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

Warrant: In conjunction with the Agreement entered into on October 21, 2009 as described in Note 6, we issued a warrant to purchase 248 shares of Common Stock at a price

of $0.75 per share. The fair market value of the warrant issued was $479 and is exercisable in full at any time during a term of ten years. The exercise price may be reduced and the number of shares of Common Stock that may be purchased under the warrant may be increased if the Company issues or sells additional shares of Common Stock at a price lower than the then-current warrant exercise price or the then-current market price of the Common Stock. The shares underlying the warrant include legal restrictions regarding the transfer or sale of the shares.

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

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

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

Preferred Stock: Our amended Articles of Incorporation authorize two million shares of Preferred Stock that may be issued from time to time in one or more series having such rights, powers, preferences and designations as the Board of Directors may determine. To date no such preferred shares have been issued.

14. Major Customers and Suppliers

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

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

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15. Segment Information

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

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

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

Retail	$ 782	$ 850
Recycling	220	275
Corporate	159	260
Total interest expense	$ 1,161	$ 1,385

16. Benefit Contribution Plan

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

17. Subsequent Events

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of such period our disclosure controls and procedures were effective.

Management's Report on Internal Controls Over Financial Reporting

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

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

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

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

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Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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 our Proxy Statement for our 2010 Annual Meeting of Shareholders to be held May 13, 2010 and is incorporated herein by reference.

Code of Ethics

Our Audit Committee has adopted a code of ethics applicable to our directors and officers (including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer) and other of our senior executives and employees in accordance with applicable rules and regulations of the SEC and The NASDAQ Stock Market. A copy of the code of ethics may be obtained upon request, without charge, by addressing a request to Investor Relations, ARCA, Inc., 7400 Excelsior Boulevard, Minneapolis, MN 55426. The code of ethics is also posted on our website at www.arcainc.com under "Investor Relations — Corporate Governance."

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding the amendment to, or waiver from, a provision of the code of ethics by posting such information on our website at the address and location specified above and, to the extent required by the listing standards of the NASDAQ Capital Market, by filing a Current Report on Form 8-K with the SEC disclosing such information.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is set forth under the headings "Compensation Committee Report" and "Executive Compensation" in our Proxy Statement for our 2010 Annual Meeting of Shareholders to be held May 13, 2010 and is incorporated herein by reference.

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

Information regarding security ownership of certain beneficial owners and management is set forth under the heading "Common Stock Ownership" in our Proxy Statement for our 2010 Annual Meeting of Shareholders to be held May 13, 2010 and is incorporated herein by reference.

The following table gives aggregate information under our equity compensation plans as of January 2, 2010:

	(a)	(b)	(c)
	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Available for Future Issuance Under Equity Compensation Plans, Excluding Securities Reflected in Column (a)
Equity compensation plans approved by shareholders	413,200	$ 4.10	205,300

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions is set forth under the headings "Director Independence" and "Review, Approval or Ratification of Transactions with Related Persons" in our Proxy Statement for our 2010 Annual Meeting of Shareholders to be held May 13, 2010 and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accounting fees and services is set forth under the heading "Independent Registered Public Accounting Firm" in our Proxy Statement for our 2010 Annual Meeting of Shareholders to be held May 13, 2010 and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON SUPPLEMENTARY INFORMATION

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

Our audits were conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and were made for the purpose of forming an opinion on the basic consolidated financial statements of Appliance Recycling Centers of America, Inc. and Subsidiaries taken as a whole. The supplemental Schedule II as of January 2, 2010 and January 3, 2009 and for the fiscal years then ended is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
March 17, 2010

Schedule II - Valuation and Qualifying Accounts
(In Thousands)

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

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

3. Exhibits

See Index to Exhibits on page 64 of this report.

SIGNATURES

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

Dated: March 18, 2010

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
(Registrant)

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

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

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

Signature	Title	Date
/s/ Edward R. Cameron Edward R. Cameron	Chairman of the Board, President and Chief Executive Officer	March 18, 2010
/s/ Peter P. Hausback Peter P. Hausback	Executive Vice President, Chief Financial Officer and Principal Accounting Officer	March 18, 2010
/s/ Duane S. Carlson Duane S. Carlson	Director	March 18, 2010
/s/ Thomas F. Hunt Jr. Thomas F. Hunt Jr.	Director	March 18, 2010
/s/ Glynnis A. Jones Glynnis A. Jones	Director	March 18, 2010
/s/ Morgan J. Wolf Morgan J. Wolf	Director	March 18, 2010

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Restated Articles of Incorporation of Appliance Recycling Centers of America, Inc. [filed as Exhibit 3.1 to the Company's Form 10-K for the fiscal year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].
3.2	Bylaws of Appliance Recycling Centers of America, Inc. as amended December 26, 2007 [filed as Exhibit 3.2 to the Company's Form 8-K filed on January 2, 2008 (File No. 0-19621) and incorporated herein by reference].
*10.1	2006 Stock Option Plan [filed as Appendix B to the Company's Schedule 14A filed on March 31, 2006 and incorporated herein by reference].
*10.2	2006 Stock Option Plan [filed as Appendix B to the Company's Schedule 14A filed on March 31, 2006 and incorporated herein by reference].
*10.3	Amendment effective April 26, 2001 to 1997 Stock Option Plan [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2001 (File No. 0-19621) and incorporated herein by reference].
*10.4	Amendment effective April 25, 2002 to 1997 Stock Option Plan [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 30, 2002 (File No. 0-19621) and incorporated herein by reference].
10.5	Line of credit dated August 30, 1996, between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, a division of Lyons Financial Services, Inc. [filed as exhibit 10.15 to the Company's Form 10-Q for the quarter ended September 28, 1996 (File No. 0-19621) and incorporated herein by reference].
10.6	First Amendment to General Credit and Security Agreement and Waiver dated November 8, 1996, between Spectrum Commercial Services, a division of Lyons Financial Services, Inc., and the Company, and related agreement [filed as exhibit 10.16 to the Company's Form 10-Q for the quarter ended September 28, 1996 (File No. 0-19621) and incorporated herein by reference].
10.7	Second Amendment to General Credit and Security Agreement and Waiver dated February 12, 1998 between Spectrum Commercial Services, a division of Lyons Financial Services, Inc., and the Company, and related agreements [filed as Exhibit 10.10 to the Company's Form 10-K for fiscal year ended January 3, 1998 (File No. 0-19621) and incorporated herein by reference].
10.8	Fourth Amendment to General Credit and Security Agreement dated September 10, 1998 between Spectrum Commercial Services, a division of Lyons Financial Services, Inc., and the Company, and related agreement [filed as Exhibit 10.15 to the Company's Form 10-K for the fiscal year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].
10.9	Fifth Amendment to General Credit and Security Agreement dated September 17, 1998 between Spectrum Commercial Services, a division of Lyons Financial Services, Inc., and the Company, and related agreements [filed as Exhibit 10.16 to the Company's Form 10-K for the fiscal year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].

10.10	Eighth Amendment to General Credit and Security Agreement dated August 30, 2000 between Spectrum Commercial Services, a division of Lyons Financial Services, Inc., and the Company, and related agreements [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 2000 (File No. 0-19621) and incorporated herein by reference].
10.11	Ninth Amendment to General Credit and Security Agreement dated June 18, 2001 between Spectrum Commercial Services Company and the Company, and related agreements [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2001 (File No. 0-19621) and incorporated herein by reference].
10.12	Tenth Amendment to General Credit and Security Agreement dated July 26, 2001 between Spectrum Commercial Services Company and the Company, and related agreements [filed as Exhibit 10.3 to the Company's Form 10-Q for the quarter ended June 30, 2001 (File No. 0-19621) and incorporated herein by reference].
10.13	Eleventh Amendment to General Credit and Security Agreement dated August 24, 2001 between Spectrum Commercial Services and the Company, and related agreements [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 29, 2001 (File No. 0-19621) and incorporated herein by reference].
10.14	Twelfth Amendment to General Credit and Security Agreement dated April 11, 2002 between Spectrum Commercial Services Company and the Company, and related agreements [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 30, 2002 (File No. 0-19621) and incorporated herein by reference].
10.15	Thirteenth Amendment to General Credit and Security Agreement dated January 23, 2003 between Spectrum Commercial Services Company and the Company, and related agreements [filed as Exhibit 10.34 to the Company's Form 10-K for the fiscal year ended December 28, 2002 (File No. 0-19621) and incorporated herein by reference].
10.16	Fourteenth Amendment to General Credit and Security Agreement dated July 1, 2004 between Spectrum Commercial Services Company and the Company [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended July 3, 2004 (File No. 0-19621) and incorporated herein by reference].
10.17	Sixteenth Amendment to General Credit and Security Agreement dated December 23, 2004 between Spectrum Commercial Services Company and the Company, and related Guarantor Acknowledgment [filed as Exhibit 10.18 to the Company's Registration Statement on Form S-2 and incorporated herein by reference].
10.18	Tenth Amended and Restated Revolving Note of the Company dated December 23, 2004 in favor of Spectrum Commercial Services Company [filed as Exhibit 10.19 to the Company's Registration Statement on Form S-2 and incorporated herein by reference].

10.19	Seventeenth Amendment to General Credit and Security Agreement dated January 12, 2005 between Spectrum Commercial Services Company and the Company [filed as Exhibit 10.20 to the Company's Registration Statement on Form S-2 and incorporated herein by reference].
10.20	Loan Agreement dated September 10, 1998 between Medallion Capital, Inc. and the Company [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].
10.21	Note of the Company dated September 10, 1998 in favor of Medallion Capital, Inc. [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].
10.22	Security Agreement dated September 10, 1998 between Medallion Capital, Inc. and the Company [filed as Exhibit 10.3 to the Company's Form 10-Q for the quarter ended October 3, 1998 (File No. 0-19621) and incorporated herein by reference].

10.23	Stock Purchase Warrant of the Company for the Purchase of 700,000 shares of Common Stock in favor of Medallion Capital, Inc. [corrected copy] [filed as Exhibit 10.14 to the Company's Form 10-K for the year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].
10.24	Amendment No. 1 to Loan Agreement and Security Agreement dated December 23, 2004 between Medallion Capital, Inc. and the Company, and related Consent and Amendment and Promissory Note [filed as Exhibit 10.25 to the Company's Registration Statement on Form S-2 and incorporated herein by reference].
10.25	Balloon Promissory Note of the Company dated September 19, 2002 in favor of General Electric Capital Business Asset Funding Corp. and related agreement [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 28, 2002 (File No. 0-19621) and incorporated herein by reference].
10.26	Balloon Promissory Note of the Company dated December 27, 2002 in favor of General Electric Capital Business Asset Funding Corp. and related agreement [filed as Exhibit 10.33 to the Company's Form 10-K for the year ended December 28, 2002 (File No. 0-19621) and incorporated herein by reference].
10.27	Reverse Logistics Master Service Agreement between Whirlpool Corporation and the Company [filed as Exhibit 10 to the Company's Form 10-Q for the quarter ended July 4, 1998 (File No. 0-19621) and incorporated herein by reference].
10.28	Retail Dealer Sales Agreement dated October 12, 2001 between Maytag Corporation and the Company [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 29, 2001 (File No. 0-19621) and incorporated herein by reference].
10.29	2003 Statewide Residential Appliance Recycling Program Agreement dated September 2, 2003 between Southern California Edison Company and ARCA California, Inc., a wholly-owned subsidiary of the Company [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 27, 2003 (File No. 0-19621) and incorporated herein by reference].
10.30	2004-05 Statewide Residential Appliance Recycling Program Agreement dated January 21, 2004 between Southern California Edison Company and ARCA California, Inc., a wholly-owned subsidiary of the Company [filed as Exhibit 10.34 to the Company's Form 10-K for the year ended January 3, 2004 (File No. 0-19621) and incorporated herein by reference].
10.31	Agreements dated September 24, 2002 between the Company and the Department of Water and Power of the City of Los Angeles [filed as Exhibit 10.32 to the Company's Form 10-K for the year ended December 28, 2002 (File No. 0-19621) and incorporated herein by reference].
10.32	Agreement dated March 1, 2004 between San Diego Gas & Electric and the Company [filed as Exhibit 10.35 to the Company's Form 10-K for the year ended January 3, 2004 (File No. 0-19621) and incorporated herein by reference].
10.33	Agreement dated May 24, 2006 between San Diego Gas & Electric and the Company [filed as Exhibit No. 10.1 to the Company's Form 8-K dated July 5, 2006 (File No. 0-19621) and incorporated herein by reference].
10.34	Agreement dated June 14, 2006 between Southern California Edison Company and the Company [filed as Exhibit No. 10.1 to the Company's Form 8-K dated July 6, 2006 (File No. 0-19621) and incorporated herein by reference].

10.35	Form of Securities Purchase Agreement dated as of December 31, 2004, between the Company and certain investors [filed as Exhibit No. 99.2 to the Company's Form 8-K dated December 31, 2004 (File No. 0-19621) and incorporated herein by reference].
10.36	Purchase Agreement for Sale of St. Louis Park Building [filed as Exhibit No. 10.36 to the Company's Form 10-Q for the quarter ended October 3, 2009 (File No. 0-19621) and incorporated herein by reference].
10.37	Lease Agreement for Leaseback of St. Louis Park Building [filed as Exhibit No. 10.37 to the Company's Form 10-Q for the quarter ended October 3, 2009 (File No. 0-19621) and incorporated herein by reference].
+10.38‡	Appliance Sales and Recycling Agreement dated October 21, 2009 between General Electric Company and the Company.
+10.39	Warrant to Purchase Common Stock of the Company for the Purchase of 248,189 shares of Common Stock in favor of General Electric Company, dated October 21, 2009.
+23.1	Consent of Baker Tilly Virchow Krause, LLP, Independent Registered Public Accounting Firm.
+31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
+31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
+32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

+ Filed herewith.

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

Exhibit 10.38

CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY ASTERISKS [*], HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

APPLIANCE SALES AND RECYCLING AGREEMENT

This Appliance Sales and Recycling Agreement (the "Agreement") is made and entered into as of October 21, 2009, (the "Effective Date") by and between the General Electric Company, a New York corporation, acting through its GE Consumer & Industrial business component located at Appliance Park, Louisville, Kentucky 40225 ("GE"), and Appliance Recycling Centers of America, Inc., a Minnesota corporation, located at 7400 Excelsior Blvd., Minneapolis, Minnesota 55426 ("ARCA"). GE and ARCA are sometimes each referred to as a "Party" or jointly as the "Parties."

WHEREAS, GE is engaged in the design, manufacture, sale, distribution and home delivery of major home appliances including, without limitation, refrigerators, freezers, air conditioners, dehumidifiers, home laundry, dishwashers, trash compactors, garbage disposals, cooking products, water heaters, water softeners, water dispensers, water filters and related accessories ("Appliances");

WHEREAS, GE in the course of its distribution and home delivery of Appliances, receives substantial quantities of used and/or damaged recyclable Appliances of GE and non-GE brands (hereinafter "Recyclable Appliances" is used interchangeably to refer to used and/or damaged recyclable Appliances of GE and non-GE brands, either resulting from GE's distribution and home delivery, referral under Article 3 herein or otherwise);

WHEREAS, ARCA is engaged in large scale processing and recycling of Recyclable Appliances and is the authorized North American distributor of advanced recycling equipment and systems for UNTHA Recycling Technology GmbH ("UNTHA"); and

WHEREAS, GE and its Affiliates as hereinafter defined, wish to sell Recyclable Appliances to ARCA for collection, processing and recycling of such Recyclable Appliances and Other Recyclable Items (as defined in Schedule 1.1(e)) at a regional processing center established to collect, process and recycle Recyclable Appliances and Other Recyclable Items from a specific region of the United States ("RPC") established and operated by ARCA, its "Affiliates" (as hereinafter defined), and/or subcontractors who are involved in providing the "Services" (as hereinafter defined), hereinafter such Affiliates and/or subcontractors of ARCA being referred to collectively as "Service Provider(s)." An "Affiliate" of ARCA or GE shall mean any entity directly or indirectly controlling or controlled by, or under direct or indirect common control of ARCA or GE, or in which ARCA or GE owns at least a 50% equity interest, whether now existing, or subsequently created or acquired during the Term of this Agreement (including, without limitation, joint ventures or other entities in which either ARCA or GE is a shareholder or holder of other form of equity ownership);

NOW, THEREFORE, in consideration of the premises and the mutual covenants of GE and ARCA, and other good and valuable consideration, the Parties agree as follows:

Article I Regional Processing Centers

1.1 Philadelphia RPC.

(a). ARCA, through its joint venture Affiliate ARCA Advanced Processing, LLC ("AAP") is establishing its first RPC located at 4301 N. Delaware Ave., Philadelphia, Pennsylvania ("Philadelphia RPC") with an initial projected capacity of [*] Recyclable Appliances per year, with the ability to increase the capacity to approximately [*] Recyclable Appliances per year. The equipment for the Philadelphia RPC initially shall include, but is not limited to: (1) systems for receiving, sorting and conveying Recyclable Appliances and Other Recyclable Items; (2) equipment for proper removal and handling of hazardous components and universal waste from Recyclable Appliances, refrigerants, used oils and any other components that are not legally authorized or appropriate to put in a shredder; and (3) a state-of-the-art shredding system for Recyclable Appliances capable of handling Appliances and Other Recyclable Items that do and do not contain foam insulation.

(b). Within 90 days of execution of this Agreement, provided that ARCA and its Service Providers have obtained all required permits and other documentation necessary to provide the "Services" (as defined below) in compliance with applicable law, including Environmental Laws, as defined herein, ARCA and its Service Provider(s) will begin providing "Services" to GE at the Philadelphia RPC. Such "Services" shall include: (i) delivering and picking-up of empty trailers and trailers loaded with Recyclable Appliances and Other Recyclable Items to and from "SDS Locations" (as hereinafter defined); (ii) transporting such trailers to and from SDS Locations; (iii) receiving, sorting processing, recycling and shredding Recyclable Appliances or "Other Recyclable Items," including those described in Schedule 1.1(e); (iv) the "Treatment, Storage or Disposal"(as defined below), of Waste Material (as defined in Article 8) at an Approved Treatment, Storage and Disposal Facility ("TSDF") as defined below ("Services"). ARCA shall provide written notice to GE of the date that the Philadelphia RPC will begin to provide the Services. GE will cooperate with ARCA in selling Recyclable

[*] signifies that confidential information has been omitted and filed separately with the Securities and Exchange Commission.

Appliances and Other Recyclable Items to ARCA during the ramp-up of the Philadelphia RPC. When ARCA notifies GE that the Philadelphia RPC has the capacity to provide the Services for the full volume of Recyclable Appliances and Other Recyclable Items generated by GE's distribution and home delivery activities in GE's Northeastern United States delivery area, as defined by GE's Scheduled Delivery Service ("SDS") locations and other distribution locations shown on Schedule 1.1 (b) as may be supplemented by GE from time-to-time ("NE Delivery Area"), GE will sell to ARCA all of its Recyclable Appliances and Other Recyclable Items generated by GE's distribution and home delivery activities in the NE Delivery Area during the remaining Term of this Agreement.

"Approved TSDF" shall mean, as reasonably approved by GE in advance, the name, address, location and facility identification number of the fully-licensed facility used by ARCA and Service Providers for Treatment, and/or Storage, and/or Disposal of Waste Material generated by ARCA and Service Providers in performing the Services, and shall include without limitation, all locations to which any materials derived from Recyclable Appliances or Other Recyclable Items are sent for Treatment, Storage, Disposal, including recycling or reclamation.

"Treatment," "Storage" or "Disposal" shall have the meanings set forth in 40 C.F.R. Part 260.10 and applicable state law and shall include without limitation treatment, storage, disposal, recycling or reclamation of any materials derived from Recyclable Appliances or Other Recyclable Items, including materials regulated under the Toxic Substances Control Act, 15 U.S.C. 2601 et seq.

(c). Within fifteen (15) months of execution of this Agreement, ARCA shall have installed at the Philadelphia RPC a fully operational UNTHA Recycling Technology recovery system for refrigerators and freezers, which is a slow-speed UNTHA shredder, and a state-of-the-art recovery system for blowing agent

gas entrained within rigid polyurethane foam insulation ("URT System"). The processing equipment and procedures for the Philadelphia RPC, before and after installation of the URT System, and for any additional RPCs which have and do not have the URT System, are attached as Schedule 1.1 (c). If the URT System at the Philadelphia RPC is not fully operational within fifteen (15) months of execution of this Agreement, GE may terminate this Agreement upon thirty (30) days written notice to ARCA, unless such period is extended by written agreement of the Parties.

(d). Until expiration of a period ending six (6) months after installation and operation of the URT System at the Philadelphia RPC ("Proof of Performance Period"), ARCA shall not provide Services to any third party without GE's prior written consent (no written response by GE within ten [10] business days of written notification by ARCA will be

deemed consent, following which ARCA shall provide GE written confirmation of ARCA's decision to proceed), except for ARCA's and the Service Providers' (and their respective Affiliates') performance of Services for existing suppliers of Recyclable Appliances or Other Recyclable Items to ARCA or the Service Providers at the Philadelphia RPC (with ARCA providing a list of such existing suppliers and volumes per supplier at the time of execution of this Agreement), as well as Recyclable Appliances or Other Recyclable Items from public utility companies which do not unreasonably impair GE's priority access.

(e). GE-supplied Recyclable Appliances and Other Recyclable Items shall have Services priority at the Philadelphia RPC over Recyclable Appliances and Other Recyclable Items supplied by any third party (including third party suppliers referred by GE) to the Philadelphia RPC during the Term.

(f). Schedule 1.1 (f) sets out the "Operations Overview" for the Philadelphia RPC. ARCA shall give GE at least thirty (30) days prior written notice of: (i) any activity that will materially increase or decrease the volume or alter the types of Recyclable Appliances and Other Recyclable Items being handled at the Philadelphia RPC; (ii) any change in the list of Approved TSDFs to be used by the Philadelphia RPC; and (iii) any activity that will result in any material change in the operations of the Philadelphia RPC and/or of its intent to enter into any agreement that will materially impact the operations of the Philadelphia RPC.

1.2 Additional RPCs

(g). Should ARCA plan to establish other RPC locations in the United States in addition to the Philadelphia RPC ("Additional RPC(s)"), either directly or through a Service Provider, whether or not such Additional RPC is planned to include the URT System or similar system for the collection of refrigerator and freezer foam insulation and blowing agent, ARCA shall provide GE written notice of the proposed location of any Additional RPC. ARCA may not provide such notice prior to the expiration of the Proof of Performance Period. Following such notice, ARCA and GE shall, for a period of sixty (60) days, exclusively negotiate an agreement for such Additional RPC, and any modified terms for such Additional RPC. If the Parties have not agreed to the terms for such Additional RPC following the expiration of such sixty (60) day period, unless such period is extended by written agreement of the Parties, ARCA may proceed to negotiate and enter agreements with other parties for the establishment of the Additional RPC, subject to Section 1.2 (d) below

and GE shall be free to enter into an agreement with another person or entity for a RPC in the regional market area of the Additional RPC.

(a). Should GE plan to establish an Additional RPC, whether or not such Additional RPC is planned to include the URT System or similar system for the collection of refrigerator and freezer foam insulation and blowing agent, GE shall provide written notice of the proposed location of any Additional RPC and GE and ARCA shall, for a period of sixty (60) days, exclusively negotiate an agreement for such Additional RPC, and any modified terms for such Additional RPC. If the Parties have not agreed to the terms for such Additional RPC following the expiration of such sixty (60) day period, unless such period is extended by written agreement of the Parties, GE may proceed to negotiate and enter into agreements with other parties for the establishment of the Additional RPC and ARCA shall be free to establish and enter into an agreement with another person or entity for a RPC in the regional market area of the Additional RPC.

(b). Nothing in this Agreement shall be construed as creating any obligation on the part of either Party to expand the scope of this Agreement or enter into a new agreement for any additional RPC(s). Further, except as provided by this Agreement as to the Philadelphia RPC or any modification thereof, and except as to any additional facilities for which GE accepts the Additional RPC(s) pursuant to paragraph 1.2(a) above, nothing in this Agreement shall be construed as creating any obligation on GE's part to sell its Recyclable Appliances or Other Recyclable Items to, or obtain Services for Recyclable Appliances or Other Recyclable Items through, ARCA or any Service Providers.

(c). During the Term, ARCA shall not, either directly or indirectly, enter into any agreement of any type with any person, corporation or other form of entity in any way directly engaged in the manufacture of any type of Appliances relating to a processing center, RPC or otherwise, for the collection, transportation, processing, and recycling of Recyclable Appliances and Other Recyclable Items or the Treatment, Storage or Disposal of Waste Material related to the performance of those activities within the United States. ARCA shall not be prohibited from performing such Services for Appliance retailers or distributors provided such operations do not interfere with GE's Services priority at the Philadelphia RPC as set forth in Section 1.1 (e). Further, should ARCA provide Services for any Appliance retailer or distributor from whom ARCA was not receiving Recyclable Appliances at the time of execution of this Agreement, ARCA shall be required to pay GE a Referral Fee as provided in Article 3 of this Agreement in connection with such Services, even though GE did not

refer such Appliance retailer or distributor to ARCA. Beginning January 1, 2012, ARCA shall not be subject to the first sentence of this Section 1.2(d) should the unit volume of Recyclable Appliances sold by GE to ARCA during the preceding calendar year fall below [*] units.

Article 2 Sale of Recyclable Appliances and Other Recyclable Items

2.1 The sale and transfer of Recyclable Appliances and Other Recyclable Items from GE in the NE Delivery Area to ARCA for the Services at the Philadelphia RPC shall be subject to the following terms and conditions:

(a). All sales are made F.O.B. point of shipment from GE's SDS and other distribution locations in the NE Delivery Area, with title and responsibility for risk of loss, damage and the cost of shipment passing to ARCA at the point of shipment.

(b). Recyclable Appliances and Other Recyclable Items purchased by ARCA shall be loaded by GE or its third party agents onto trailers provided by ARCA or its third party agents at SDSs and transported to the Philadelphia RPC by ARCA or its qualified third party transportation provider. The type and number of Recyclable Appliances and Other Recyclable Items will be documented on a product delivery receipt ("PDR") or comparable form (see Schedule 2.1 (b)) and loaded on trailers or trucks at GE's SDSs and other distribution locations in the NE Delivery Area. A PDR shall confirm transfer of title and an assessment of any existing damage to the trailer or trucks and shall be signed by the driver, the representative of the SDS or other GE distribution location, and the

representative of the RPC. GE will not be responsible for any degradation or damage to trailers or trucks that may be incurred as a result of the collection and transportation activities, except when caused directly by GE or its third party agents.

(c). In the event that collection and transportation by GE or its third party agents to the Philadelphia RPC can provide efficiencies, including cost efficiencies, for certain routes or satisfy GE's customer requirements, GE and ARCA will work together to utilize GE or GE's third party agents. ARCA and GE will memorialize the cost and other terms and conditions of any delivery of empty trailers and pick-up and transportation of loaded trailers of Recyclable Appliances and Other Recyclable Items by GE or its third party agents to the Philadelphia RPC in a separate agreement.

(d). At the Philadelphia RPC, the inbound trailers or trucks will be weighed using a scale certified by the Pennsylvania Department of

[*] signifies that confidential information has been omitted and filed separately with the Securities and Exchange Commission.

Agriculture, Division of Weights and Measures. The Recyclable Appliances and Other Recyclable Items will be verified against the PDR or comparable form to ensure that no loss of Recyclable Appliances or Other Recyclable Items has occurred en route.

(e). [*]

(f). Beginning with the first partial or full week of the Philadelphia RPC's receipt of shipments of Recyclable Appliances and Other Recyclable

[*] signifies that confidential information has been omitted and filed separately with the Securities and Exchange Commission.

Items, payment shall be made monthly on the basis of ARCA's fiscal calendar (which shall be provided by ARCA to GE), with full payment for each ARCA fiscal month being received by GE via electronic funds transfer by the fourth (4th) Friday following the expiration of each such month, with GE receiving a report in the form of Schedule 2.1 (f) at least fourteen (14) days prior to the due date of each monthly payment. Such report shall be subject to audit by GE in accordance with Article 4.

(g). The price for Recyclable Appliances and Other Recyclable Items does not include any present or future sales, use, excise, value-added or similar taxes. Where applicable, such taxes shall be paid by ARCA and, where required, invoiced by GE and paid by ARCA within thirty (30) days of the date of the invoice.

(h). ARCA hereby grants to GE a purchase money security interest in the Recyclable Appliances and Other Recyclable Items supplied by GE to the Philadelphia RPC, only in the amount of ARCA's then outstanding unpaid obligation due to GE for such Recyclable Appliances and Other Recyclable Items and the Referral Fee under Article 3 which shall be satisfied by payment in full to GE. In order to perfect GE's security interest, GE may file a financing statement with the appropriate authorities that ARCA will sign upon request or, for such purpose, GE is hereby appointed by ARCA an agent of ARCA to sign financing statements on ARCA's behalf.

(i). NO EXPRESS, ORAL, STATUTORY OR IMPLIED WARRANTY, INCLUDING THE IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, SHALL APPLY. GE'S LIABILITY ON ANY CLAIM FOR LOSS OR DAMAGE ARISING OUT OF THIS CONTRACT OR FROM THE PERFORMANCE OR BREACH THEREOF OR CONNECTED WITH, THE SUPPLYING OF ANY GOODS HEREUNDER, OR THEIR SALE, OPERATION OR USE, WHETHER BASED ON CONTRACT, WARRANTY, TORT (INCLUDING NEGLIGENCE), STRICT LIABILITY, OR OTHER GROUNDS, SHALL NOT EXCEED THE PRICE ALLOWABLE FOR SUCH GOODS OR PART THEREOF INVOLVED IN THE CLAIM. GE SHALL NOT IN ANY EVENT BE LIABLE, WHETHER AS A RESULT OF BREACH OF CONTRACT, WARRANTY, TORT (INCLUDING NEGLIGENCE), STRICT LIABILITY OR OTHER GROUNDS, FOR SPECIAL, PENAL, CONSEQUENTIAL OR INCIDENTAL DAMAGES INCLUDING, BUT NOT LIMITED TO LOSS OF PROFITS OR REVENUE, LOSS OF USE OF THE RECYCLABLE APPLIANCES OR OTHER RECYCLABLE ITEMS, COST OF CAPITAL, COST OF

SUBSTITUTE PRODUCTS, FACILITIES OR SERVICES, OR CLAIMS OF CUSTOMERS OF ARCA FOR SUCH DAMAGES.

(j). ARCA agrees that it will, and will ensure that its Service Providers and any sub-tier Service Providers will, only recycle and will not sell for re-use or resale any Recyclable Appliances or Other Recyclable Items sold to ARCA by GE or by a third party supplier referred by GE.

<u>Article 3 Referral Fee</u>

3.1 ARCA shall pay GE a referral fee ("Referral Fee") for any third party supplier of Recyclable Appliances or Other Recyclable Items (including, without limitation, the items listed in Schedule 1.1 (e)) that GE refers to ARCA for the Philadelphia RPC or for any Recyclable Appliances or Other Recyclable Items received by ARCA from any Appliance retailer or distributor from whom ARCA (excluding its Affiliates) was not receiving Recyclable Appliances or Other Recyclable Items at the time of execution of this Agreement, even though GE did not refer such Appliance retailer or distributor to ARCA ("Referral Business"). ARCA shall not be required to accept products, materials or substances materially different from Recyclable Appliances or Other Recyclable Items listed in Schedule 1.1(e) unless both GE and ARCA have agreed in writing (no written response by one Party within ten [10] business days of written notification by the other Party will be deemed consent, following which the Party seeking consent shall provide to the other Party written confirmation of its decision to proceed) to include such products, materials or substances for processing by ARCA. The Referral Fee shall not be paid for any supplier, who is not an appliance retailer or appliance distributor, of Recyclable Appliances or Other Recyclable Items that is already a supplier to ARCA or its Affiliates at the time of referral. ARCA's purchase of, and providing of Services for, third party Recyclable Appliances and Other Recyclable Items referred by GE shall have Services priority over Recyclable Appliances and Other Recyclable Items purchased by ARCA or its Affiliates from other third parties but not over Recyclable Appliances and Other Recyclable Items purchased from GE.

3.2 [*]

3.3 ARCA's payment of the Referral Fee to GE shall be made on the same basis and procedures as provided in Section 2.1 (f).

[*] signifies that confidential information has been omitted and filed separately with the Securities and Exchange Commission.

Article 4 ARCA Books and Records/Site Access

4.1 ARCA shall maintain, at its offices or at the Philadelphia RPC, complete and accurate books and records, supporting data and other sufficient detail relating to the performance under, or transactions directly related to, the purchase of Recyclable Appliances and Other Recyclable Items by ARCA from GE or the Referral Business, or which allow for an adequate evaluation of the pricing and fees data related thereto, and/or which relate to ARCA's or its Service Providers' provision of Services hereunder or compliance with any provisions of this Agreement in accordance with, and for such period as required by, generally accepted accounting principles, and applicable law (collectively "Books and Records"). During the Term of this Agreement and for seven (7) years thereafter, or for such longer period as may be reasonably required by GE pursuant to written notice to ARCA, ARCA and its Service Providers agree to maintain such books and records for: (i) financial or tax purposes required by any government agency, or required by any law, rule or regulation, or (ii) in connection with any ongoing or threatened litigation, suit or proceeding.

4.2 GE, its employees, agents and representatives, shall have the right, but not the responsibility, at any time during normal business hours, and with no less than seventy-two (72) hours notice, to inspect and audit the Books and Records. Adjustments in favor of GE arising from any such audit of ARCA or its Service Providers shall be recognized as an adjustment of any future payment due GE or, if no future payment is due GE, ARCA shall promptly pay the amount of any such adjustment to GE. ARCA shall cooperate fully with GE or its employees, agents, and representatives, in connection with audit functions or any inspections.

4.3 Subject to the confidentiality and nondisclosure provisions of Article 7 of this Agreement, GE, its employees, agents and representatives shall have the right, but not the responsibility, to access the site(s) where the Services are performed in order to assess the work quality, the condition and housekeeping of the Philadelphia RPC, the environment, health and safety management systems of the Philadelphia RPC and conformance with ARCA's representations, warranties and covenants under this Agreement.

4.4 GE's exercise of its rights, or failure to exercise its rights, under any part of this Article 4 shall in no way: relieve ARCA or its Service Providers of their respective obligations under this Agreement or any applicable laws or regulations, including without limitation, Environmental Laws (as hereinafter defined), or in equity; imply any approval by GE of ARCA's or its Service Providers' environment, health and safety management systems; or to make GE responsible for any act or omission of ARCA or its Service Providers with respect to compliance or noncompliance with any applicable laws or regulations, including without limitation, Environmental Laws.

Article 5 Covenants, Representations and Warranties

5.1 During the Term, ARCA covenants, represents and warrants that: (i) it has the legal right to provide the Services in the jurisdictions where the Services are provided; (ii) its Services hereunder will be performed by qualified individuals in a professional and workmanlike manner conforming to the highest generally applicable industry standards and practices, including without limitation those set forth in Schedules 1.1(c) and 1.1(f) hereof (or such modifications to such standards and practices as may be reasonably agreed with GE in writing); and (iii) it will perform its duties and obligations under this Agreement in compliance with all applicable laws, regulations, codes and standards of government agencies or authorities having jurisdiction in connection with its obligations under this Agreement including, without limitation, Environmental Laws (as hereinafter defined).

5.2 During the Term, ARCA further covenants, represents and warrants for itself and its Affiliates, including AAP, that:

(a). it and its Service Providers will, in the performance of this Agreement or anywhere at the Philadelphia RPC facility: (i) use no forced, indentured or prison labor, or labor which violates any applicable minimum working age, working condition, wage or overtime laws; (ii) comply with the tax, immigration, and employment laws of all jurisdictions in which its employees perform work under this Agreement; and (iii) comply with all applicable privacy or data protection laws relating to this Agreement;

(b). it is and its Service Providers are business organization(s) duly incorporated or otherwise organized, validly existing and in good standing under the Laws of the jurisdiction in which it was incorporated, and is in good standing in each other jurisdiction where the failure to be in good standing would have a material adverse effect on its business or its ability to perform its obligations under this Agreement;

(c). except as disclosed by ARCA or its Service Providers, neither its nor its Service Providers' owners, directors or senior managers have been charged with or convicted of a felony, are the subject of any lawsuit or proceeding involving charges of misconduct or violations of law (excluding small claims and minor traffic violations), including Environmental Laws and no judgment, order or decree (excluding small claims and minor traffic violations) has been issued against ARCA, its Affiliates or Service Providers, their respective owners, directors and senior managers with any claim that ARCA, its Affiliates or Service Providers or their respective owners, directors or senior

management has violated any criminal or other laws, including any Environmental Laws;

(d). it shall remain primarily responsible and liable to GE and its Affiliates for performance of or failure to perform the Services, regardless of whether GE and/or its Affiliates has given approval or consent to a specific Service Provider including without limitation, a TSDF;

(e). it and its Service Providers will transport Waste Material to and store, treat, and/or dispose of Waste Material only at Approved TSDFs and in accordance with all Environmental Laws;

(f). it and its Service Providers' Services shall be performed using personnel, equipment, and material qualified and/or suitable to perform the Services requested, including, without limitation, the proper installation, operation and maintenance of the URT System;

(g). services performed by or delivered through ARCA or a Service Provider shall be in accordance with the highest generally accepted standards of the industry at the time of performance and shall conform to the provisions of this Agreement;

(h). all Services shall be materially free from defects and shall meet any specifications provided or approved by GE and its Affiliates; any equipment utilized in connection with performance hereunder shall be safe and in proper working order and conform to all applicable regulatory requirements. If any of the Services performed are found at any time to be defective in material or workmanship, or otherwise not in conformity with the requirements of this Agreement, GE and its Affiliates, in addition to such other rights, remedies and choices as it may have by contract or by law, at its option and sole discretion may: (i) upon notice to ARCA, take such necessary and reasonable actions as may be required to cure all defects and/or bring the Services and materials into conformity with all the

requirements of this Agreement, in which event all costs and expenses thereby incurred by GE and its Affiliates shall be to ARCA's account; and (ii) require ARCA to re-perform, at its own expense, any defective portion of the Services performed**;**

(i). it will assure that its officers, directors, employees, agents, Affiliates and Service Providers at every tier shall comply with all of the requirements of federal, state, and local laws, rules, regulations and ordinances applicable to the Services to be performed hereunder, including Environmental Laws and laws related to the take-back or management of Recyclable Appliances and Other Recyclable Items; ARCA shall be solely responsible for obtaining, maintaining and complying with, or assuring that its Service Providers obtain, maintain

and comply with, all licenses, permits, approvals or other documents which are or shall be required for performance hereunder, and shall be responsible for the satisfaction of all legal and regulatory requirements of any governmental entity having jurisdiction over the purchase of Recyclable Appliances or Other Recyclable Items or the performance of Services hereunder;

(j). it shall notify GE immediately if (i) ARCA, its Affiliates, or, to ARCA's knowledge, any Service Provider, including an Approved TSDF is served with notice of violation of any laws, rules, regulations, ordinances, licenses, approvals or permits, including Environmental Laws related to the purchase of Recyclable Appliances or Other Recyclable Items, the Services provided hereunder or the Waste Materials; (ii) proceedings are commenced against ARCA or it Affiliates or, to ARCA's knowledge, any Service Provider or Approved TSDF that could lead to suspension, fines, or revocation of permits, approvals or licenses which relate to the Services; (iii) permits, approvals or licenses held by ARCA, its Affiliates or, to ARCA's knowledge, any Service Provider or Approved TSDF, relating to Services are revoked; (iv) ARCA or its Affiliates determine or otherwise become aware that any equipment or facility related to Services is not in compliance with applicable laws, rules, regulations, ordinances, licenses, permits or approvals, including Environmental Laws; and/or, (v) any release of Waste Material occurs to any environmental media at the RPC or during the transport of Waste Materials, including any such release that is required to be reported to any governmental agency. For purposes of this paragraph, ARCA shall be deemed to have knowledge when it actually knows a fact or when, by means of reasonable due inquiry, it would have become aware of a fact. In addition, GE and its Affiliates have the right, but not the responsibility, to request an annual summary of any notices of violation issued by the United States Environmental Protection Agency, or any local, state or federal governmental body with jurisdiction over the Services, against ARCA, its Affiliates or Service Providers. Upon receiving any notice under this paragraph 5.2(j), GE and its Affiliates have the right to suspend the sale of any Recyclable Appliances and Other Recyclable Items and the performance of additional Services by ARCA, its Affiliates or Service Providers until the matter giving rise to such notice has been resolved or corrected to GE's reasonable satisfaction;

(k). any transporter used for shipment of any Waste Material: (i) shall be in compliance with, and shall continue to comply with, all federal and state laws and regulations applicable to it, including those regulations promulgated under 49 CFR Part 385; (ii) shall not have received an "Unsatisfactory" safety rating from Federal Motor Carrier Safety

Administration within the last 24 months and shall have taken all necessary steps to correct all issues that resulted in any previous "Unsatisfactory" safety rating; and (iii) shall not have been found liable or responsible, during the previous five years, for violation of a single acute regulation or two or more critical regulations pursuant to 49 CFR Part 385, Appendix B. VII, or any analogous state law or regulation for motor carrier safety. Also, any transporter used for shipment of any Waste Material containing PCB wastes in any quantity, waste oil, or hazardous wastes, must be licensed under Environmental Laws to handle and transport such materials and must be approved by GE. Only transporters that have been specifically approved by GE to transport PCB-wastes may be used to transport any waste-containing PCBs;

(l). it and its Service Providers shall take all necessary or appropriate precautions for the health and safety of their employees in the performance of the Services and at all locations involved in the performance of the Services. In addition, GE and its Affiliates have the right, but not the responsibility, to request an annual summary (including safety statistics) of the health and safety performance of ARCA, its Service Providers, its transporters, and all TSDFs in connection with their purchase of Recyclable Appliances and Other Recyclable Items and the performance of Services under this Agreement;

(m). it and its Service Providers shall maintain an environmental, health and safety management system including the elements set forth in Schedule 5.2 (m);

(n). until the expiration of the Proof of Performance Period and only as reasonably approved by GE otherwise, it and its Service Providers will not make any public statements or claims, including without limitation issuing advertising media, press releases, or discussions with other potential customers, regarding the Services it is providing for GE in the Philadelphia RPC;

(o). it will handle the Recyclable Appliances and Other Recyclable Items in accordance with this Agreement which shall include the destruction, through incineration, conversion or disassociation (or other available technology acceptable to ARCA and in compliance with all applicable laws) of any recovered CFC refrigerants or CFC blowing agent in the foam from Recyclable Appliances that GE provides for the Services; for the avoidance of doubt, neither ARCA nor its Service Providers will under any circumstances, sell Recyclable Appliances, Other Recyclable Items or any recovered CFC refrigerants or foam blowing agent from Recyclable Appliances that GE sells to ARCA;

(p). it will track the price of carbon credits on the Chicago Climate Exchange (CCX) monthly to determine whether the selling price of carbon credits that may be obtained for disposing of refrigerant or foam blowing agents, exceeds the value of selling them on the open market to third parties. ARCA will provide a report to GE every sixty (60) days showing the value of carbon credits versus open market sale value. If the value of the carbon credits, after considering the disposal costs, exceeds the sale value of the refrigerants or foam blowing agents on the open market, ARCA and GE will, in good faith, negotiate an amendment to this Agreement under which ARCA would share with GE the revenues from the carbon credits obtained by ARCA's disposal of the refrigerants or foam blowing agents. If other financial incentives are offered in the future for the disposal of refrigerants or foam blowing agents, including without limitation, a "bounty," ARCA will, at GE's request, negotiate an amendment to this Agreement to provide GE with a share of any such financial incentive;

(q). it and its Service Providers will ensure that all of its personnel providing Services are in compliance with all visas, passports, and work permits being used by them and ARCA will use commercially reasonable efforts to obtain, or have obtained, all such permits, licenses, visas, passports and work permits in a timely manner to avoid any unnecessary delay;

(r). it is in compliance with Section 404 of the Sarbanes Oxley Act of 2002 and that it will supply to GE, in a manner reasonably specified by GE, documents attesting that it has in place controls that are effective and have been tested by a third party, such as an outside auditor, that monitor and ensure compliance with Section 404 of the Sarbanes-Oxley Act of 2002, and, at GE's reasonable request, but no more than once per calendar year, ARCA will furnish to the Company SAS 70 (type I and II) reports and evidence of compliance with ISO 17799;

(s). it has all of the necessary corporate or organizational power and authority to own, lease and operate its assets and to carry on its business as presently conducted and as it will be conducted pursuant to this Agreement and the consummation of the transactions contemplated thereby have each been authorized by all necessary corporate action and do not violate any judgment, order, or decree;

(t). it and its Service Providers shall comply with provisions or contractual clauses required by the Office of Federal Contract Compliance Programs as set forth in 41 Code of Federal Regulations (CFR) Chapter 60, as well as any Executive Orders as now or hereafter issued, amended or codified, where applicable to ARCA,

including but not limited to the Equal Opportunity Clause; the Affirmative Action Clause regarding Disabled Veterans and Veterans of the Vietnam Era; the Affirmative Action Clause regarding Handicapped Workers; and the requirements for non-segregated facilities set forth in Chapter 60-1.8 of the 41 CFR, as well as comply with such similar laws in jurisdictions outside the United States;

(u). in carrying out its responsibilities under the Agreement, it and its Service Providers shall not pay, offer or promise to pay, or authorize the payment directly or indirectly of any monies or anything of value to any government official or employee or any political party or candidate for political office, for the purpose of inducing or rewarding any favorable action in any commercial transaction or in any governmental matter, and it has and will maintain and enforce its own company policy requiring adherence to ethical business practices, including a prohibition on bribery of government officials;

(v). no owner, partner, officer or director of ARCA or of any Affiliate of ARCA is or will become an official or employee of any government or of an agency or instrumentality of any government during the Term of this Agreement without the prior written approval of GE;

(w). no part of the Services and/or the equipment used by ARCA and its Service Providers shall violate, infringe on or misappropriate any copyright, trademark, patent, trade secret or personal, proprietary or intellectual property rights of any third party; and, further, ARCA and/or its Service Providers are either the owner or are authorized to use any equipment that ARCA and its Service Providers may use in providing of the Services;

(x). it and its Service Providers have and will maintain security measures consistent with international standards where applicable to ARCA and its Service Providers for the protection of its operations and facilities against exploitation by criminal or terrorist individuals and organizations;

(y). it and its Service Providers will allow their workers to freely choose whether or not to organize or join associations for the purpose of collective bargaining as provided by local law;

(z). as of the Effective Date, as applicable, there is no pending or anticipated claim, suit, or proceeding that involves ARCA or its Service Providers that might adversely affect ARCA's and its Service Providers' ability to perform their obligations under this Agreement;

(aa). neither ARCA nor any of its Service Providers, nor any employee, agent or representative of either, has used or shall use any GE Confidential Information, as defined herein, to obtain financial gain for ARCA, any of its Service Providers, any of their employees, agents or representatives, or any other entity other than in performance of the Services in accordance with this Agreement;

(bb). it has all intellectual property rights and licenses to perform the Services free and clear of claims of infringement; and;

(cc). it has established an effective program to ensure its Service Providers and any suppliers it utilizes to provide any Services under this Agreement will be in conformance with this Agreement.

5.3 In the event GE determines at any time that any of ARCA's representations, warranties or covenants are untrue, GE shall have the right, in addition to other remedies available to it at law or in equity, to terminate this Agreement as provided in Section 6.2, with ARCA remaining obligated to pay GE any amounts due to GE up to the effective date of termination. During any cure period under Section 6.2, GE and its Affiliates have the right to suspend the sale of any Recyclable Appliances and Other Recyclable Items and the performance of additional Services by ARCA, its Affiliates or Services Providers until the matter giving rise to such notice and right to cure has been resolved or corrected to GE's reasonable satisfaction.

Article 6 Term and Termination

6.1 This Agreement shall commence on the Effective Date and shall remain in effect for a period of six (6) years from the first date of collection of Recyclable Appliances from GE's NE Delivery Area (the "Initial Term"), with an option to renew for up to three (3) additional one (1) year terms (the "Renewal Terms"), each at GE's sole option exercisable within one hundred twenty (120) days prior to the expiration of the Initial Term or subsequent Renewal Term (the Initial Term and any Renewal Term(s) are collectively referred to as the "Term").

6.2 Either Party may terminate this Agreement if the other Party is in material breach of this Agreement and has not cured the breach within sixty (60) days after receiving written notice from the other Party specifying the breach. Consent to extend the cure period shall not be unreasonably withheld, so long as the breaching Party has commenced a cure during the sixty (60) day notice period and expeditiously pursues cure of the breach in good faith.

6.3 In the event ARCA's ownership interest in AAP decreases, ARCA sells or otherwise transfers a material portion of the assets of its recycling business or another party acquires a controlling interest in ARCA that, in GE's sole discretion, is unacceptable to GE, then GE may: (a) upon ninety (90) days prior written

notice to ARCA, terminate this Agreement; or (b) terminate the Agreement immediately upon written notice to ARCA if the representations in Section5.2(c) hereof are not true at the time that the acquiring party obtains a material portion of the assets of ARCA's recycling business or a controlling interest in ARCA**.**

6.4 If ARCA becomes insolvent, a receiver for ARCA is appointed or applied for, a petition is filed by or for ARCA under any federal or state bankruptcy law or ARCA makes an assignment for the benefit of creditors, GE may terminate this Agreement upon one (1) day prior written notice to ARCA.

6.5 Termination of this Agreement shall not limit either Party from pursuing any other remedies available to it, including injunctive relief, nor shall termination relieve ARCA of its obligation to pay all amounts due to GE that have accrued prior to such termination. Either Party's obligations under Section 2.1(h), Article 4, Section 6.6,

Articles 7, 8 and 12 and Sections 13.1, 13.3, 13.5, 13.6, 13.7, 13.8 and 13.9 of this Agreement shall survive termination cancellation or expiration of this Agreement.

6.6 Upon termination or expiration of this Agreement each party shall promptly, upon written request, return to the other all Confidential Information, papers, materials and other properties of the other held by each for the purposes of and in connection with this Agreement. In addition, each Party, at its own cost and expense, will assist the other in orderly termination or expiration of this Agreement and the transfer of all aspects hereof, tangible and intangible, as may be reasonably necessary for the timely, orderly, non-disrupted business continuation of each Party.

Article 7 Confidentiality and Proprietary Information

7.1 As used in this Agreement, "Confidential Information" shall mean, with respect to either Party, their respective Affiliates and Service Providers all information and data, including GE Personal Data (as hereinafter defined), whether technical or non-technical, in any medium, furnished or made available directly or indirectly by one Party (the "Disclosing Party") to the other (the "Receiving Party") in connection with this Agreement, and that includes without limitation: (i) information that is marked confidential, restricted, proprietary, or with a similar designation; (ii) computer software and programs (including object code and source code), database technologies and systems (and related information technology); (iii) all information concerning the operations, affairs, methods, transactions and businesses of the Disclosing Party (including without limitation, ideas, marketing plans, business plans or strategies, business volumes or usage, data and other information that are trade secrets or are competitively sensitive), the financial information or affairs of the Disclosing Party, pricing information and the relations of the Disclosing Party with its employees; (iv) either Party's nonpublic personal information relating to its customers; and (v) the terms and conditions of this Agreement except where such disclosure is required

by law. Each Party's Confidential Information shall remain the property of that Party except as expressly provided otherwise by the other provisions of this Agreement.

7.2 Confidential Information shall not include information that the Receiving Party can demonstrate: (i) is or becomes publicly available through no wrongful act or omission of the Receiving Party; (ii) is obtained by the Receiving Party from a third party without a breach of Receiving Party's or third party's confidentiality obligations; (iii) was in the possession of the Receiving Party at the time of disclosure without any confidentiality obligations; or (iv) was independently developed by the Receiving Party without reference to Confidential Information.

7.3 The Receiving Party shall protect the Disclosing Party's Confidential Information against unauthorized use or disclosure using at least those measures that it takes to protect its own Confidential Information of a similar nature, but no less than reasonable care, and shall not use or disclose the Disclosing Party's Confidential Information for any purpose except in connection with its performance of this Agreement; in connection with obtaining any financing or raising of capital where any recipients of such information are required to execute appropriate nondisclosure agreements as a condition to receiving such information; or as set forth in Section7.7 hereof. Notwithstanding the foregoing, the Receiving Party may disclose the Disclosing Party's Confidential Information to any Affiliate; provided, however, each person to whom such Confidential Information is disclosed is subject to confidentiality obligations comparable in scope to those herein.

7.4 Upon request of the Disclosing Party or upon termination of this Agreement, all materials containing Confidential Information will be destroyed or returned to the Disclosing Party and the Receiving Party will retain no copies or reproductions of the Confidential Information unless required by law, except that the Receiving Party may retain one record copy for archival purposes, subject to the reasonable instructions of the Disclosing Party with respect to such copy.

7.5 In the event of any unauthorized use or disclosure or loss of any Confidential Information of the Disclosing Party, the Receiving Party shall promptly, at its own expense: (i) notify the Disclosing Party in writing; (ii) take such actions as may be necessary or reasonably requested by the Disclosing Party to minimize the violation or the damage resulting therefrom; and (iii) cooperate in all reasonable respects with the Disclosing Party to minimize the violation and any damage resulting therefrom.

7.6 The Receiving Party acknowledges that any actual or threatened violation of this Article may cause irreparable, non-monetary injury to the Disclosing Party, the extent of which may be difficult to ascertain, and therefore agrees that the

Disclosing Party shall be entitled to seek injunctive relief in addition to all other remedies available at law and/or in equity.

7.7 Should the Receiving Party be compelled by court decree, subpoena or other requirements of law, rule, regulation, ordinance, permit, or approval to disclose any of the Confidential Information, it shall promptly notify the Disclosing Party in writing, and use reasonable good faith efforts to: (a) disclose only the specific Confidential Information legally required to be disclosed; and (b) assist the Disclosing Party (if and to the extent requested by the Disclosing Party) in obtaining a protective order or other appropriate assurances that the confidential nature of the Confidential Information shall be protected and preserved.

7.8 The foregoing obligations shall supersede the confidentiality obligations in the Mutual Confidentiality and Non-Disclosure Agreement between the Parties dated April 24, 2009 and shall be continuing and binding until the date on which the Disclosing Party's Confidential Information is no longer confidential; protection for trade secrets under this Article 7 shall extend for as long as the relevant information qualifies as a trade secret under applicable law.

Article 8 Indemnification

8.1 To the fullest extent permitted by law, ARCA agrees to indemnify, defend and hold harmless GEand its Affiliates, directors, officers, employees, agents, successors and assigns and all other persons and entities acting on behalf of or under the control of the other Party from and against any and all claims, demands, suits, causes of action, debts or liabilities, losses, judgment, damages, costs (including all reasonable attorney's fees), expenses, fines and penalties ("Loss(es)") arising out of, or concerning or connected with, (1) ARCA's performance, or failure to perform, any of the Services, transactions or activities contemplated under this Agreement; (2) ARCA's breach of any of the representations, warranties, or covenants contained in this Agreement; (3) any infringement or alleged infringement of the Services upon any patent, copyright, trade secret, or other proprietary right of any third party; (4) Environmental Impact Claims (as defined hereinafter) at or affecting the Philadelphia RPC, any property affected by transport of the Recyclable Appliances or Other Recyclable Items, or any Approved TSDF (but as to the TSDF, only to the extent related to Waste Materials under this Agreement); (5) violations of Environmental Laws, permits, or approvals in connection with the Philadelphia RPC or any Services performed under this Agreement; or (4) the Waste Material, as hereinafter defined , including, but not limited to, the possession, transportation, Storage, Treatment and/or Disposal of Waste Material, arising out of or relating to the performance of the Services and any resulting release or threat of release of Waste Material, contamination of or adverse effects on the environment arising out of or relating to the Waste Materials. This indemnity is absolute and unconditional and

includes, but is not limited to, any claims or actions whether in negligence, strict liability, breach of warranty or otherwise, but does not extend to Losses to the extent directly caused by the gross negligence or willful misconduct of GE or its Affiliates.

8.2 Definitions

(a) In connection with the foregoing, the phrase "Losses" shall be understood in its most comprehensive sense, which includes any and all claims, losses, damages, fines, penalties, costs or other detriments, and, without limiting the foregoing, specifically includes all statutory or common law claims brought against GE, ARCA or their respective Affiliates, including claims brought pursuant to Sections 106, 107 or 113 of the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. 9601 et seq.), as amended, including future amendments thereto, Sections 7002 and 7003 of the Resource Conservation and Recovery Act, (42 U.S.C. Section 6901 et seq.) as amended, including any future amendments thereto, the Toxic Substances Control Act, 15 U.S.C. 2601 et seq. as amended, including any future amendments thereto, or similar state and local Environmental Laws including claims for damage to the environment or property or claims for bodily injury. Notwithstanding anything to the contrary stated hereinabove, "Losses" shall expressly include, without limitation, any and all costs incurred due to any investigation of the Philadelphia RPC or other sites or any cleanup, removal or restoration mandated by or pursuant to any Environmental Laws.

(b) "Environmental Impact Claims" are Losses which arise out of, are related to, or are based on the actual or threatened dispersal, discharge, escape, or release of chemicals, liquids, gases, Waste Material (as defined hereinafter) or any other material, contaminant or pollutant in or into the atmosphere, or on, onto, upon, in or into the surface or subsurface (i) soils, (ii) water or water course, (iii) objects, or (iv) any tangible or intangible matter, whether sudden or not.

"Environmental Laws" shall mean any federal, state or local laws, statutes, regulations, rules, codes or ordinances or any judicial or administrative decree, judgment, orders permit or decision, and any amendments thereto, including future amendments, relating to the public health and safety or the protection of the environment, including without limitation the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. 9601 et seq., as amended (CERCLA), the Resource Conservation and Recovery Act, as amended 42 U.S.C. 6901 et seq., the Clean Water Act, 33 U.S.C. 1251 et seq., the Clean Air Act, 42 U.S.C. 7401 et seq., the Toxic Substances Control Act, 15 U.S.C. 2601 et seq., and the Safe Drinking Water Act, 42 U.S.C. 300f through 300j.

(d) "Waste Material" shall mean wastes that meet the descriptions set forth below generated in providing the Services whether generated and/or stored at an RPC or other sites: any solids, liquids, sludges, semisolids, or contained gases which

fall within the definition of "solid wastes" as set forth in 40 C.F.R. section 261.2 (and any applicable state law or regulation that is more stringent than federal law or regulation), or as defined under Environmental Laws. The term "Waste Material" includes any and all materials or substances which are defined as "hazardous waste," "extremely hazardous waste" or as "hazardous substances" pursuant to Environmental Laws, and also includes asbestos, polychlorinated biphenyls ("PCBs") and petroleum products and any materials sent for Treatment, Storage, Disposal, recycling or reclamation. Where there exists a conflict in the definitions employed by two or more governmental agencies that have overlapping jurisdiction over wastes generated by ARCA, and its Service Providers, "Waste Material" shall be construed to have the broadest of the meanings employed by such agencies.

8.3 In connection with the forgoing indemnities, ARCA and its Affiliates specifically waive and relinquish all statutory or common law claims against GE and its Affiliates, including its present and future officers, directors, shareholders, subsidiaries, divisions, employees and agents, that ARCA and its Affiliates may otherwise have in connection with transfer to ARCA and its Affiliates of title and responsibility for the Recyclable Appliances, Other Recyclable Items, Referral Business or Waste Material, including any claims arising under Environmental Laws, claims for property damage or bodily injuries, including death.

8.4 The foregoing indemnities are conditioned on: (a) GE notifying ARCA in writing within ninety (90) days of becoming aware of any covered Loss, provided, however, that the failure of GE to give ARCA such written notice will not relieve ARCA of its obligations hereunder except to the extent such failure materially prejudices (or results in material prejudice to) ARCA's defense of such claim; and (b) GE providing ARCA with the assistance, information, and authority reasonably necessary to defend such claim. Reasonable out-of-pocket expenses incurred by GE in providing such assistance will be reimbursed by ARCA. ARCA will keep GE promptly and fully informed regarding all material developments with respect to such Loss. In no event shall ARCA by its action or inaction, or by default, concede or admit liability, or enter into any judgment or settlement regarding any indemnified Loss without GE's prior written consent, which such consent shall not be unreasonably withheld or delayed. If GE has to file suit against ARCA to enforce this indemnity, ARCA shall reimburse GE for all legal fees and expenses GE incurs in connection with such enforcement. GE reserves the right, at its own expense, to participate in the defense of any matter subject to indemnification by the ARCA.

Article 9 Insurance

9.1 Without limiting the indemnification provisions of this Agreement, ARCA shall obtain, during the Initial Term and any Renewal Terms, and maintain in force the following insurance coverage at its own cost and expense:

(a). Worker's Compensation with applicable minimum statutory limits per occurrence, Disability and Unemployment Insurance, and all other insurance as required by law and as customarily maintained in ARCA's industry for all ARCA employees performing the Services hereunder, including Employer's Liability Insurance with limits of no less than $500,000 per occurrence, or any amount required by applicable law, whichever is greater.

(b). Commercial General Liability, on an occurrence basis, including but not limited to premises-operations, product completed-operations, broad form property damage, contractual liability, independent contractors and personal liability, with a minimum combined single limit of $3,000,000 per occurrence. This policy shall be endorsed to name GE and its Affiliates as additional insureds.

(c). Full "All Risk" and "Extended Coverage" Replacement Cost Coverage Property Insurance on any and all equipment belonging to GE that may be within ARCA's possession or control.

(d). Umbrella Liability on an occurrence basis with a minimum limit of at least $4,000,000 per occurrence, in excess of the applicable insurance under policies indicated in Sections 9 (a), (b) and (c). This policy shall be endorsed to name GE and its Affiliates as additional insureds.

(e). Comprehensive Errors and Omissions Liability covering the liability for financial loss due to error, omission, negligence of employees and machine malfunction in an amount of at least $5,000,000 per occurrence. This policy shall be endorsed to name GE and its Affiliates as additional insureds.

(f). Comprehensive Crime Policy on an occurrence basis, with limits of at least $5,000,000 per occurrence.

(g). Pollution Legal Liability Insurance for the Philadelphia RPC, with a minimum of coverage limit of $5,000,000 per incident and $10,000,000 aggregate. The policy shall cover all activities at the Philadelphia RPC or individual policies with the same coverage limits shall be obtained for each legal entity operating at the Philadelphia RPC. The policy(ies) shall be endorsed to name GE and its Affiliates as additional named insureds. Similar policies shall be purchased for any Additional RPCs established under Section 1.2 hereof.

9.2 ARCA shall cause its insurers to issue, before the Effective Date of this Agreement, certificates of insurance evidencing that the required coverages and policy endorsements are maintained in force, and that not less than thirty (30)

days written notice shall be given to GE prior to any modification, cancellation or non-renewal of the policies.

9.3 The foregoing insurance coverage shall be primary and non-contributing with respect to any other insurance or self-insurance that may be maintained by GE. Each insurance policy carried by ARCA shall grant waiver of subrogation on all policies indicated in this Article. Upon request by GE, the insurers selected by ARCA shall have an A.M. Best rating of A- or better or, if such ratings are no longer available, with a comparable rating from a recognized insurance rating agency. ARCA shall ensure that its Service Providers maintain insurance coverage as specified in this Article 9.

Article 10 Compliance with GE Policies

10.1 ARCA and its Service Providers will supply and review with all ARCA and Service Provider personnel who provide Services under this Agreement a copy of GE's Integrity Guide for Suppliers (**Schedule 10.1**), and will cause all such ARCA and Service Provider personnel to comply with such policies to the extent that such policies are applicable to the activities conducted by ARCA and its Service Provider personnel in performing the Services.

Article 11 Relationship Between the Parties

11.1 Independent Contractor. ARCA is an independent contractor. Nothing in this Agreement shall be construed to create a partnership, joint venture, or agency relationship between the Parties. Nothing in this Agreement shall be interpreted or construed as creating or establishing the relationship of employer and employee between GE and either ARCA or any ARCA personnel or Service Provider of ARCA. Each Party will be solely responsible for payment of all compensation owed to its employees, as well as federal and state income tax withholding, social security taxes, and unemployment insurance applicable to such personnel as employees of the applicable Party, and each Party shall bear sole responsibility for any health or disability insurance, retirement benefits, or other welfare or pension benefits (if any) to which such Party's employees may be entitled. Neither Party nor their respective personnel shall have any right or authority to assume or create any obligation of any kind expressed or implied in the name of or on behalf of the other Party.

11.2 Notices. All notices, including notices of address change, required to be sent hereunder shall be sent by facsimile (with the original to promptly follow by applicable national mail service or overnight courier), by overnight courier, or transmitted electronically. Notices will be deemed given on the date delivered to the recipient if sent by fax or overnight courier (it being agreed that the sender shall retain proof of transmission or delivery, as the case may be), or when accessible electronically if sent electronically. Notices shall be sent to the Parties as follows (or as otherwise directed by a Party):

GE:

[*]
GM, Distribution and Services
Appliance Park, Bldg. 4 Room 126C
Louisville, KY 40225
Fax: [*]
Email: [*]

[*]
Manager, Local Delivery Service
Appliance Park, Bldg. 4 Room 116
Louisville, KY 40225
Fax: [*]
Email: [*]

[*]
Vice President and General Counsel
Appliance Park, Bldg 2 Room 226
Louisville, KY 40225
Fax: [*]
Email: [*]

ARCA: [*]
Appliance Recycling Centers of America, Inc.
7400 Excelsior Boulevard
Minneapolis, MN 55426
Fax: [*]
Email: [*]

11.3 Warrant Agreement. The parties intend to contemporaneously enter into a Warrant Agreement with the execution of this Agreement. The Parties agree that this Agreement shall have no force and effect unless a Warrant Agreement in the form attached hereto as Schedule 11.3 is executed by both Parties.

Article 12 Alternative Dispute Resolution

12.1. In the event of any dispute between the Parties hereto arising from or relating to this Agreement, then, upon the written request of either Party, each of the Parties will appoint a designated representative to resolve such dispute. The designated representatives will be executives with sufficient authority to engage in good faith negotiations and bind the Party she/he represents. If the designated representatives are unable to resolve the dispute within a reasonable

[*] signifies that confidential information has been omitted and filed separately with the Securities and Exchange Commission.

period (but in no event more than thirty (30) days from the date of receipt of written request), then the dispute will be escalated to representatives of each party at least one (1) level higher in their respective organizations than those involved in the previous round of negotiations ("Escalated Representatives"). Except if a court determines preliminary injunctive relief is warranted upon application of one of the Parties to this Agreement, no formal proceedings relating to such dispute may be commenced until the Escalated Representatives conclude in good faith that amicable resolution through continued negotiation of the matter in issue does not appear likely. If the Escalated Representatives are unable to resolve the dispute within a reasonable period, (but in no event more than thirty (30) days from the date negotiations commenced between the Escalated Representatives), the Parties shall submit the dispute for non-binding mediation by a single mediator in accordance with the rules of the CPR Institute for Dispute Resolution (www.cpradr.org) ("CPR"), utilizing rules and procedures in place at the time of the dispute. Such mediator shall be competent in any technical, legal or other issue(s) involved in the dispute. In the event the Parties are unable to resolve the dispute within thirty (30) days of commencement of the mediation, or if one party fails to participate in the mediation as agreed herein, either party may refer the dispute to arbitration by a sole arbitrator (for claims estimated at $5 million or less) or 3 arbitrators (for claims estimated at over $5 million) in accordance with the CPR Rules for Non-Administered Arbitration of Business Disputes then currently in effect. Unless otherwise agreed by the Parties, the mediator shall be disqualified from serving as arbitrator in the case. The place of arbitration shall be New York, New York, and the language of the arbitration shall be English. The Federal Arbitration Act shall govern the arbitration and any court having jurisdiction thereof may enter judgment upon the award rendered by the arbitrator(s). The Parties will participate in the arbitration in good faith, and, unless awarded to the contrary by the mediator or arbitrator, will share equally in the administrative costs of the mediation and arbitration. The arbitrator shall not be empowered to award damages in excess of compensatory damages, and each party irrevocably waives all rights to recover such non-compensatory damages with respect to any dispute resolved by arbitration hereunder. The Parties irrevocably waive all objections to venue, jurisdiction of the court, and right to trial by jury in any judicial action, proceeding or claim ancillary to an arbitration arising out of this Agreement.

Article 13 General Provisions

13.1 Severability. If any provision of this Agreement is illegal or unenforceable, its invalidity shall not affect the other provisions of this Agreement that can be given effect without the invalid provision. If any provision of this Agreement does not comply with any law, ordinance or regulation, such provision, to the extent possible, shall be interpreted in such a manner so as to comply with such law, ordinance or regulation, or, if such interpretation is not possible, it shall be deemed to satisfy the minimum requirements thereof.

13.2 Assignability/Subcontractors.

(a). Unless otherwise approved or agreed in writing by GE, ARCA shall not assign, delegate or subcontract any of its rights or responsibilities under this Agreement to any Affiliate or to any third party or entity. This Agreement may not be assigned by ARCA, or involuntarily assigned or assigned by operation of law, without the express written consent of GE, which consent shall be in GE's sole discretion. There shall be no restriction on GE's ability to assign this Agreement, provided that GE shall not be released upon making any such assignment.

(b). If GE consents to the use of any subcontractors by ARCA to perform the Services, such Service Providers shall be engaged to do so under written contracts with ARCA under terms and conditions no less restrictive than those set forth herein, including but not limited to Articles 5 and 10. ARCA shall also ensure that each Service Provider has obtained and maintains all licenses required in connection with the Services for which such Service Provider is responsible. ARCA shall include in its subcontracts provisions equivalent to those in this Agreement to the extent such terms and conditions are relevant to the Services to be provided by the Service Provider (including, without limitation, a restriction on the Service Provider's right to further subcontract its obligations without GE's prior written consent), and shall identify GE as a direct and intended third party beneficiary thereof. Upon GE's request from time-to-time, an officer of ARCA shall certify in writing that each Service Provider is in full compliance with this Section.

(c). Notwithstanding the foregoing, it is understood and agreed that ARCA may without notice to GE subcontract certain ministerial and non-core responsibilities, including by way of example and not limitation, mailing and copying.

(d). ARCA shall remain responsible, as primary obligor, for all obligations performed by Service Providers to the same extent as if such obligations were directly performed by ARCA, including any acts or omissions by the Service Providers. In no event shall ARCA be relieved of its obligations under this Agreement as a result of its use of any Service Providers. ARCA shall supervise the activities and performance of each Service Provider and shall be jointly and severally liable with each such Service Provider for any act or failure to act by such Service Provider. If GE determines that the performance or conduct of any Service Provider is unsatisfactory, GE may notify ARCA of its determination in writing, indicating the reasons therefor, in which event ARCA promptly shall take all

necessary actions to remedy the performance or conduct of such Service Provider or, if such remediation is not possible, replace such Service Provider.

(e). Any attempt by ARCA to so assign or delegate any of the foregoing (except as permitted, above) without consent as provided for herein shall be void.

13.3 Governing Law. This Agreement shall be construed and enforced in accordance with, and governed by, the substantive laws of the State of New York, United States of America, without regard to the conflict of laws principles thereof, and all actions arising out of or relating to this Agreement must be brought in the State of New York. The Parties agree that they will not object to the choice of New York law or arbitration in New York in any proceeding to adjudicate a dispute under this Agreement or to enforce an arbitral award related to this Agreement.

13.4 Publicity/Advertising. As a material obligation of this Agreement and except as otherwise required by law, GE and its Affiliates or agents, and ARCA, its Affiliates, Service Providers or its agents shall not release information with respect to the existence or terms of this Agreement or an amendment or any other document thereto and shall not without the consent of the other Party use the name, logo, trademarks, photographs, or any reference either direct or indirect of either Party in advertising, marketing, public relations or similar publications (such as, but not limited to, marketing brochures, press releases, case studies or references). Neither Party is under any obligation, express or implied, to provide any such consent; and, in the event that any such consent should be granted for a particular communication, neither Party shall not be under any further obligation to provide consent in any future request.

13.5 Electronic Communications. Any document properly transmitted and received by the other Party by computer access shall be considered a writing delivered in connection with this Agreement. Electronic documents shall be deemed received by a Party when accessible by the recipient on the recipient's computer system.

13.6 Waiver. The waiver by either Party of any default or breach of this Agreement shall not constitute a waiver of any other or subsequent default or breach. The Parties' failure at any time to enforce any of the provisions of this Agreement or any right or remedy available hereunder or at law or equity, or to exercise any option herein provided will in no way be construed to be a waiver of such provisions, rights, remedies or options or any other term, condition or covenant of this Agreement, or in any way to affect the validity of this Agreement. The exercise by GE or ARCA of any rights, remedies or options provided hereunder or at law or equity shall not preclude or prejudice the exercising hereunder of the same or any other rights, remedies or options.

13.7 Force Majeure. Neither party shall be in default or otherwise liable for any delay in, or failure of, its performance under this Agreement where such delay or failure arises by reason of any act of God, or any government or any governmental body, war, insurrection, the elements, strikes or labor disputes, or other similar cause beyond the control of such Party. Either Party may terminate, at its option, the whole or any part of this Agreement if such a situation continues for sixty (60) days.

13.8 Counterparts/Headings. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one counterpart has been signed by each Party and delivered to the other Party hereto. The Article and Section headings in this Agreement are inserted for convenience of reference only and shall not constitute a part hereof.

13.9 Entire Agreement. Time is of the essence as to each and every provision of this Agreement requiring performance within a specified time. This Agreement shall constitute the complete and final expression of agreement between the Parties and supersedes all previous or contemporaneous agreements or representations, written or oral, with respect to the subject matter described herein. No course of prior dealings between Parties, no course of performance and no usage of trade shall be relevant to determine the meaning of this Agreement even though the accepting or acquiescing party has knowledge of the performance and opportunity for objection. This Agreement may not be modified, supplemented or amended except in writing signed by a duly authorized representative of each Party. Any attempted modification, addition of new terms, or submission of inconsistent terms thereto in any document submitted by a Party, whether or not materially different, are objected to and shall have no force or effect upon the other Party unless specifically accepted by such other Party in writing. Any section that by its nature should survive expiration or termination of this Agreement, shall remain in effect after the expiration or termination of this Agreement, including but not limited to, Section 2.1 (h), Article 4, Section 6.6, Articles 7, 8 and 12 and Sections 13.1, 13.3, 13.5, 13.6, 13.7, 13.8 and 13.9.

[Signatures begin on next page.]

IN WITNESS WHEREOF, the authorized representatives of the Parties hereto have executed this Agreement as of the date first written above or as otherwise specified herein.

Executed by General Electric Company:

Authorized Signature: ______________________________

Name: [*]

Title: General Manager, Distribution and Services

Date: October 21, 2009

Executed by Appliance Recycling Centers of America, Inc.:

Authorized Signature: ______________________________

Name: ______________________________

Title: ______________________________

Date: October 21, 2009

[*] signifies that confidential information has been omitted and filed separately with the Securities and Exchange Commission.

Schedule 1.1 (b)- Scheduled Delivery Service Locations for the Northeast Delivery area

[*]

[*] signifies that confidential information has been omitted and filed separately with the Securities and Exchange Commission.

Schedule 1.1 (c) — Processing Equipment and Procedures

[*]

[*] signifies that confidential information has been omitted and filed separately with the Securities and Exchange Commission.

Schedule 1.1 (e) — Other Recyclable Items

Scrap and Haul-Away items that are recyclable (other than Recyclable Appliances) including, but not limited to:

- Household mechanicals such as furnaces, pressurized devices and air compressors, lawn mowers and tractors, patio furniture, exercise equipment and tool boxes;
- Accessories for Appliances and mechanicals such as Appliance backsplashes, cords and spare parts; and
- Miscellaneous metal items, such as tool boxes, shopping carts, lumber carts and racks, that may from time to time be added to loads – as long as the load does not contain any industrial waste or other substance that is regulated under EHS Laws and regulations.

Schedule 1.1 (f) — Operations Overview

[*]

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[*] signifies that confidential information has been omitted and filed separately with the Securities and Exchange Commission.

Schedule 2.1 (b) — Product Delivery Receipt (example)

To be agreed to by the parties.

Schedule 2.1 (e) — Philadelphia AMM (26 weeks)

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[*] signifies that confidential information has been omitted and filed separately with the Securities and Exchange Commission.

Schedule 2.1 (f) — Detailed Payment Report (example)

[*]

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[*] signifies that confidential information has been omitted and filed separately with the Securities and Exchange Commission.

Schedule 5.2 (m) — Environmental Health and Safety Management System Requirements

Environmental, Health and Safety (EH&S) Policy

ARCA and its Affiliates will establish an EHS Policy, which includes the following:

- Comply with applicable EHS laws and regulations.
- Take appropriate measures to prevent workplace injuries and illnesses, and provide employees with a safe and healthy working environment.
- Consider evolving industry practices, regulatory requirements and societal standards of care.
- Assess EHS impacts before starting a new activity or project or entering a new site.
- Consider EHS impacts in its operations and services.
- Eliminate unreasonable risks from its facilities, products, services and activities.
- To the extent reasonably practicable, reduce the use and release of toxic and hazardous materials, prevent pollution, and conserve, recover and recycle materials.
- Continue to improve its EHS systems and performance as an integral part of its operational strategy.

Schedule 5.2 (m) — Environmental Health and Safety Management System Requirements

EMS: Environmental

- To achieve the EHS Policy's goals, ARCA and its Affiliates will implement an Environmental Management System (EMS).

- The EMS should include at least the following elements:
  - Air
  - Chemical Control
  - General Environmental
  - Regulated Waste and Dangerous Goods Shipping
  - Waste
  - Water

Schedule 5.2 (m) — Environmental Health and Safety Management System Requirements

EMS: Health and Safety

- To achieve the goal of protecting its employees, ARCA and its Affiliates will implement a Health and Safety (H&S) management system. The H&S management system will include at least the below elements.
  - Industrial Hygiene
  - Chemical Management
  - Ergonomics
  - Motor Vehicle Safety
  - Medical Services
  - Program Evaluation
  - Lock Out, Tag Out
  - Site H&S Plan
  - H&S Expectations and Performance Approval
  - Hazard Analysis and Regulatory Compliance
  - Employee Involvement
  - H&S Specialist
  - Accident Reporting, Investigation and Follow-Up
  - H&S Training
  - Health, Safety and Housekeeping Inspections
  - Personal Protective Equipment
  - Contractor H&S
  - Emergency Preparedness and Fire Prevention
  - Job Safety Analysis
  - High Risk Operations
  - H&S Review of New or Modified Equipment

Schedule 5.2 (m) — Environmental Health and Safety Management System Requirements

EMS: Procedures

- ARCA's and its Affiliates' management shall include an EHS leader.

- To achieve its goals of the EHS Policy, the ARCA and its Affiliates will conduct periodic EHS training to relevant personnel. The EHS leader will evaluate the operations, determine which personnel require training and provide such training on at least the following topics, as appropriate:
  - Personal Protective Equipment
  - Toxic Substances
  - General Safety Training
  - Ergonomics
  - Lock Out/Tag Out
  - Confined Spaces
  - Hazardous Materials Management
  - Hazard Communication

- ARCA and its Affiliates shall operate as to its suppliers under a supplier relationship policy or implementation strategy and do business only with suppliers that comply with the policy and applicable laws in the areas of employment, environment, health and safety.

Schedule 10.1 — GE Integrity Guide for Suppliers

[*]

[*] signifies that confidential information has been omitted and filed separately with the Securities and Exchange Commission.

Schedule 11.3 — Warrant

Form of Warrant attached.

2009 WARRANT

To Purchase Common Stock of

Appliance Recycling Centers of America, Inc.

No. of Shares of Common Stock: 248,189

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THIS WARRANT AND THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE TRANSFERRED IN VIOLATION OF SUCH ACT, THE RULES AND REGULATIONS THEREUNDER OR THE PROVISIONS OF THIS WARRANT.

No. of Shares of Common Stock: 248,189

2009 WARRANT

To Purchase Common Stock of

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

THIS IS TO CERTIFY THAT GENERAL ELECTRIC COMPANY, a New York Corporation, acting through its GE Consumer & Industrial business unit ("GE"), or registered assigns, is entitled, at any time during the Exercise Period (as hereinafter defined), to purchase from APPLIANCE RECYCLING CENTERS OF AMERICA, INC. ("ARCA"), a Minnesota corporation ("Company"), 248,189 shares of Common Stock (as hereinafter defined and subject to adjustment as provided herein), in whole or in part, including fractional parts, at a purchase price of $0.75 per share (subject to adjustment as provided herein) all on the terms and conditions and pursuant to the provisions hereinafter set forth.

I. DEFINITIONS.

The following terms have the meanings set forth below:

"Additional Shares of Common Stock" means all shares of Common Stock issued by Company after the date hereof other than Warrant Stock.

"Board" means the Board of Directors of Company.

"Business Day" means any day that is not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the State of New York.

"Common Stock" means (except where the context otherwise indicates) the Common Stock, par value $0.00 per share, of Company as constituted on the date hereof, and any capital stock into which such Common Stock may thereafter be changed, and shall also include (i) capital stock of Company of any other class (regardless of how denominated) issued to the holders of shares of Common Stock upon any reclassification thereof which is also not preferred as to dividends or assets over any other class of stock of Company and which is not subject to redemption and (ii) shares of common stock of the successor or acquiring Person received by or distributed to the holders of Common Stock of Company in the circumstances contemplated by Section 4.9.

"Company" has the meaning set forth in the recitals.

"Convertible Securities" means any option, warrant or share of preferred stock of Company or any other security, in any case, which is convertible into or exercisable or exchangeable for Additional Shares of Common Stock, either immediately or upon the occurrence of a specified date or a specified event.

"Current Market Price" means, in respect of a share of Common Stock on any date, if there shall then be a public market for the Common Stock, the average of the daily market prices for 20 consecutive Business Days commencing 30 days before such date. The daily market price for each such Business Day shall be (i) the last sale price on such day on the principal stock exchange or the NASD Automatic Quotation Capital Market ("NASDAQ Capital Market") on which the Common Stock is then listed or admitted to trading, (ii) if no sale takes place on such day on any such exchange or NASDAQ Capital Market, the average of the last reported closing bid and ask prices on such day as officially quoted on any such exchange or NASDAQ Capital Market, (iii) if the Common Stock is not then listed or admitted to trading on any stock exchange or NASDAQ Capital Market, the average of the last reported closing bid and ask prices on such day in the over-the-counter market as furnished by the NASDAQ or the National Quotation Bureau, Inc., (iv) if neither such corporation at the time is engaged in the business of reporting such prices, as furnished by any similar firm then engaged in such business or (v) if there is no such firm, as furnished by any member of the FINRA selected by the Required Holders and Company or, if they cannot agree upon such selection, as selected by two such members of the FINRA, one of which shall be selected by the Required Holders and one of which shall be selected by Company. If there shall not then be a public market for the Common Stock, the fair market value per share of Common Stock as at such date determined shall be the price that would reflect the economic value of such shares on a fully distributed basis (that is, as if such shares were traded on a free and active market on an exchange or over-the-counter) and giving effect to the exercise or conversion of all Convertible Securities (including the receipt by Company of the related exercise or conversion price), in a sale by a willing seller under no compulsion to sell and a willing buyer under no compulsion to buy, without any premium or discount for any reason, including but not limited to any discount related to the offering of such shares, any premium for control or any discount for illiquidity.

"Current Warrant Price" means, in respect of a share of Common Stock on any date herein specified, the price at which a share of Common Stock may be purchased pursuant to this Warrant on such date.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and all rules and regulations promulgated thereunder.

"Exercise Period" has the meaning set forth in Section 2.1.

"Expiration Date" means the date ending ten (10) years from the date hereof.

"FINRA" means the Financial Industry Regulatory Authority, Inc., or any successor Person thereto.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time.

"GE Investor" means GENERAL ELECTRIC COMPANY, a New York corporation.

"Holder" means the Person in whose name the Warrant set forth herein is registered on the books of Company maintained for such purpose.

"Organic Change" means (a) any sale, lease, exchange or other transfer of all or substantially all of the property, assets or business of Company, (b) any liquidation, dissolution or winding up of Company, whether voluntary or involuntary, (c) any merger or consolidation to which Company is a party and which the holders of the voting securities of Company immediately prior thereto own less than [a majority] of the outstanding voting securities of the surviving entity immediately following such transaction or (d) any Person or group (as such term is used in Section 13(d) of the Exchange Act) of Persons shall beneficially own (as defined in Rule 13d-3 under the Exchange Act) securities of Company representing 50% or more of the voting securities of Company then outstanding. For purposes of the preceding sentence, "voting

securities" shall mean securities, the holders of which are ordinarily, in the absence of contingencies, entitled to elect the corporate directors (or Persons performing similar functions).

"Outstanding" means, when used with reference to Common Stock, on any date, all issued shares of Common Stock on such date, except shares then owned or held by or for the account of Company or any Subsidiary thereof, and shall include all shares issuable in respect of outstanding scrip or any certificates representing fractional interests in shares of Common Stock.

"Permitted Issuances" means the issuance of shares of Common Stock upon conversion of Company's presently outstanding preferred stock, warrants (including the Warrants) and options.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity or government (whether federal, state, county, city, municipal or otherwise, including, without limitation, any instrumentality, division, agency, body or department thereof).

"Required Holders" means the holders of Warrants exercisable for in excess of 50% of the aggregate number of shares of Warrant Stock then purchasable upon exercise of all Warrants.

"Securities Act" means the Securities Act of 1933, as amended, and all rules and regulations promulgated thereunder.

"stock" or "common stock" means the ownership interests, in whatever tangible or intangible form, in a Person.

"Subsidiary" means, with respect to any Person, (a) any corporation of which an aggregate of more than 50% of the outstanding Stock having ordinary voting power to elect a majority of the board of directors of such corporation is at the time, directly or indirectly, owned legally or beneficially by such Person and one or more Subsidiaries of such Person, and (b) any limited liability company, partnership or other entity in which such Person and one or more Subsidiaries of such Person shall have an interest (whether in the form of voting or participation in profits or capital contribution) of more than 50%.

"Transfer" means any disposition of any Warrant or Warrant Stock or of any interest in either thereof, which would constitute a sale thereof within the meaning of the Securities Act.

"Warrant" means this 2009 Warrant and all warrants issued upon transfer, division or combination of, or in substitution for, this 2009 Warrant. All Warrants shall at all times be identical as to terms and conditions and date, except as to the number of shares of Common Stock for which they may be exercised.

"Warrant Price" means an amount equal to (i) the number of shares of Common Stock being purchased upon exercise of this Warrant pursuant to Section 2.1, multiplied by (ii) the Current Warrant Price as of the date of such exercise.

"Warrant Stock" means the shares of Common Stock issued or issuable upon the exercise of this Warrant.

II. EXERCISE OF WARRANT.

2.1 Exercise Period. From and after the date hereof and until 5:00 P.M., New York time, on the Expiration Date (the "Exercise Period"), Holder may exercise this Warrant, on any Business Day, for all or any part of the Warrant Stock.

2.2 Exercise Notice; Delivery of Certificates. In order to exercise this Warrant, Holder shall deliver to Company at its principal office at 7400 Excelsior Blvd. Minneapolis, MN 55426 or at the office or agency designated by Company pursuant to Section 13.2, (i) a written notice of Holder's election to exercise this Warrant, specifying the number of shares of Common Stock to be purchased, (ii) payment of the Warrant

Price and (iii) this Warrant. Such notice shall be substantially in the form of the subscription form appearing at the end of this Warrant as Exhibit A, duly executed by Holder or its agent or attorney. Upon receipt of such notice, Company shall, as promptly as practicable, and in any event within five (5) Business Days thereafter, deliver to Holder a duly executed certificate or certificates representing the aggregate number of full shares of Common Stock issuable upon such exercise, together with cash in lieu of any fraction of a share, as hereinafter provided. Such stock certificate or certificates shall be in such denominations and registered in the name designated in the subscription form, subject to Section 9. Holder or any other Person so designated to be named therein shall be deemed to have become a holder of record of such shares of Warrant Stock for all purposes, as of the date on which all items in clauses (i)-(iii) above have been received by Company and all taxes required to be paid by Holder, if any, pursuant to Section 2.4 have been paid. If this Warrant shall have been exercised in part, Company shall deliver to Holder a new Warrant evidencing the rights of Holder to purchase the remaining shares of Common Stock issuable upon exercise of this Warrant, which new Warrant shall in all other respects be identical with this Warrant, or appropriate notation may be made on this Warrant and the same returned to Holder. Notwithstanding the foregoing, if in connection with the exercise of a Warrant or acquisition of shares of Common Stock, any regulatory approval shall be required, including expiration of any applicable waiting period, then, if the Warrant is exercised prior to such approval, the Expiration Date shall be extended while any such regulatory approval or waiting period is pending and, upon such surrender of the Warrant Certificate, any payment of the Exercise Price shall be paid promptly following receipt of such approval.

2.3 Payment of Warrant Price. Payment of the Warrant Price shall be made at the option of the Holder by:

(i) certified or official bank check;

(ii) the surrender to Company of that number of shares of Warrant Stock (or the right to receive such number of shares) or shares of Common Stock having an aggregate Current Market Price equal to or greater than the Current Warrant Price for all shares then being purchased (including those being surrendered); or

(iii) any combination thereof, duly endorsed by or accompanied by appropriate duly executed instruments of transfer.

2.4 Payment of Taxes. All shares of Warrant Stock shall be validly issued, fully paid and nonassessable and without any preemptive rights. Company shall pay all expenses, transfer taxes and other governmental charges with respect to the issue or delivery of the Warrant Stock, unless such tax or charge is imposed by law upon Holder. Company shall not be required, however, to pay any transfer tax or other similar charge imposed in connection with the issue of any certificate for shares of Common Stock in any name other than that of Holder, and in such case Company shall not be

required to issue or deliver any stock certificate until such tax or other charge has been paid or it has been established to the satisfaction of Company that no such tax or other charge is due.

2.5 Fractional Shares. Company shall not be required to issue a fractional share of Common Stock upon exercise of any Warrant. As to any fraction of a share which the Holder of one or more Warrants would otherwise be entitled to purchase upon such exercise Company shall pay a cash adjustment in respect of such final fraction in an amount equal to the same fraction of the Current Market Price per share of Common Stock on the date of exercise.

III. TRANSFER, DIVISION AND COMBINATION.

3.1 Transfer. Subject to compliance with Section 9 hereof, Transfer of this Warrant and all rights hereunder, in whole or in part, shall be registered on the books of Company to be maintained for such purpose, upon surrender of this Warrant at the principal office of Company referred to in Section 2.2 or the office or agency designated by Company pursuant to Section 13.2, together with a duly executed written assignment of this Warrant substantially in the form of Exhibit B hereto and funds sufficient to pay any transfer taxes payable upon the making of such Transfer. Upon such surrender and, if required, such payment, Company shall, subject to Section 9, execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned in compliance with Section 9, may be exercised by a new Holder for the purchase of shares of Common Stock without having a new Warrant issued.

3.2 Division and Combination. Subject to Section 9, this Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office or agency of Company, together with a duly executed written notice specifying the names and denominations in which new Warrants are to be issued. Subject to compliance with Section 3.1 and with Section 9, as to any Transfer which may be involved in such division or combination, Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

3.3 Expenses. Company shall prepare, issue and deliver at its own expense (other than transfer taxes) the new Warrant or Warrants under this Section 3.

3.4 Maintenance of Books. Company agrees to maintain, at its aforesaid office or agency, books for the registration and the registration of Transfer of the Warrants.

IV. ADJUSTMENTS.

The number of shares of Common Stock for which this Warrant is exercisable, or the price at which such shares may be purchased upon exercise of this Warrant, shall be subject to adjustment from time to time as set forth in this Section 4. Company shall give each Holder notice of any event described below which requires an adjustment pursuant to this Section 4 at the time of such event.

4.1 Stock Dividends, Subdivisions and Combinations. If at any time Company shall:

(a) take a record of the holders of Common Stock for the purpose of entitling them to receive a dividend payable in, or other distribution of, Common Stock,

(b) subdivide or split its Outstanding shares of Common Stock into a larger number of shares of Common Stock, or

(c) combine or reclassify its Outstanding shares of Common Stock into a smaller number of shares of Common Stock,

then (i) the number of shares of Common Stock for which this Warrant is exercisable immediately after the occurrence of any such event shall be adjusted to equal the number of shares of Common Stock which a record holder of the same number of shares of Common Stock for which this Warrant is exercisable immediately prior to the occurrence of such event or the record date therefor, whichever is earlier, would own or be entitled to receive after the happening of such event, and (ii) the Current Warrant Price shall be adjusted to equal (A) the Current Warrant Price multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment divided by (B) the number of shares for which this Warrant is exercisable immediately after such adjustment.

4.2 Certain Other Distributions and Adjustments. If at any time the Company shall declare, order, pay or make a dividend or other distribution (including, without limitation, any distribution of stock or other securities or property or rights or warrants to subscribe for securities of Company or any of its Subsidiaries by way of dividend or spin-off) on its Common Stock other than dividends or distributions of shares of Common Stock which are referred to in Section 4.1, then, and in each such case, the number of shares of Common Stock for which this Warrant is exercisable shall be adjusted to equal the number of shares of Common Stock which a record holder of the same number of shares of Common Stock for which this Warrant is exercisable immediately prior to the occurrence of such event would own or be entitled to receive after the happening of such event, and the Current Warrant Price to be in effect after such record date shall be determined by multiplying (1) the Current Warrant Price in effect immediately prior to such record date by (2) a fraction, the numerator of which shall be the Current Warrant Price on such record date less the fair market value (determined as

set forth in paragraph 4.7(a)) of such dividend or distribution per share of Common Stock and the denominator of which shall be such Current Warrant Price.

4.3 Issuance of Additional Shares of Common Stock. (a) If at any time Company shall issue or sell any Additional Shares of Common Stock, other than Permitted Issuances, in exchange for consideration in an amount per Additional Share of Common Stock less than the Current Warrant Price at the time the Additional Shares of Common Stock are issued, then (i) the Current Warrant Price as to the number of shares for which this Warrant is exercisable prior to such adjustment shall be reduced to a price determined by dividing (A) an amount equal to the sum of (x) the number of shares of Common Stock Outstanding immediately prior to such issue or sale multiplied by the then existing Current Warrant Price, plus (y) the consideration, if any, received by Company upon such issue or sale, by (B) the total number of shares of Common Stock Outstanding immediately after such issue or sale; and (ii) the number of shares of Common Stock for which this Warrant is exercisable shall be adjusted to equal the product obtained by multiplying the Current Warrant Price in effect immediately prior to such issue or sale by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such issue or sale and dividing the product thereof by the Current Warrant Price resulting from the adjustment made pursuant to clause (i) above.

(b) If at any time Company shall issue or sell any Additional Shares of Common Stock, other than Permitted Issuances, for consideration in an amount per Additional Share of Common Stock less than the Current Market Price, then (i) the number of shares of Common Stock for which this Warrant is exercisable shall be adjusted to equal the product obtained by multiplying the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such issue or

sale by a fraction (A) the numerator of which shall be the number of shares of Common Stock Outstanding immediately after such issue or sale, and (B) the denominator of which shall be the sum of (1) the number of shares of Common Stock Outstanding immediately prior to such issue or sale and (2) the number of shares of Common Stock which the aggregate consideration, if any, received by Company upon such issue or sale would purchase at the then Current Market Price; and (ii) the Current Warrant Price as to the number of shares of Common Stock for which this Warrant is exercisable prior to such adjustment shall be adjusted by multiplying such Current Warrant Price by a fraction (x) the numerator of which shall be the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such issue or sale; and (y) the denominator of which shall be the number of shares of Common Stock purchasable immediately after such issue or sale.

(c) If at any time Company shall issue or sell any Additional Shares of Common Stock, other than Permitted Issuances, in exchange for consideration in an amount per Additional Share of Common Stock which is less than the Current Warrant Price and Current Market Price at the time the Additional Shares of Common Stock are issued, the adjustment required under this Section 4.3 shall be made in accordance with

the formula in paragraph (a) or (b) above which results in the lower Current Warrant Price following such adjustment. The provisions of paragraphs (a) and (b) of this Section 4.3 shall not apply to any issuance of Additional Shares of Common Stock for which an adjustment is provided under Section 4.1 or 4.2. No adjustment of the number of shares of Common Stock for which this Warrant shall be exercisable shall be made under paragraph (a) or (b) of this Section 4.3 upon the issuance of any Additional Shares of Common Stock which are issued pursuant to the exercise of any warrants or other subscription or purchase rights or pursuant to the exercise of any conversion or exchange rights in any Convertible Securities, if any such adjustment shall previously have been made upon the issuance of such warrants or other rights or upon the issuance of such Convertible Securities (or upon the issuance of any warrant or other rights therefor) pursuant to Section 4.4 or Section 4.5.

4.4 Issuance of Warrants or Other Rights. If at any time Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a distribution of, or shall in any manner (whether directly or by assumption in a merger in which Company is the surviving corporation) issue or sell, any warrants or other rights to subscribe for or purchase any Additional Shares of Common Stock or any Convertible Securities, whether or not the rights to exchange or convert thereunder are immediately exercisable, and the price per share for which Common Stock is issuable upon the exercise of such warrants or other rights or upon conversion or exchange of such Convertible Securities shall be less than the Current Warrant Price or the Current Market Price in effect immediately prior to the time of such record, issue or sale, then the number of shares for which this Warrant is exercisable and the Current Warrant Price shall be adjusted as provided in Section 4.3 on the basis that the maximum number of Additional Shares of Common Stock issuable pursuant to all such warrants or other rights or necessary to effect the conversion or exchange of all such Convertible Securities shall be deemed to have been issued and outstanding and Company shall be deemed to have received all of the consideration payable therefor, if any, as of the date of the issuance of such warrants or other rights.

4.5 Issuance of Convertible Securities. If at any time Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a distribution of, or shall in any manner (whether directly or by assumption in a merger in which Company is the surviving corporation) issue or sell, any Convertible Securities, whether or not the rights to exchange or convert thereunder are immediately exercisable, and the price per share for which Common Stock is issuable upon such conversion or exchange shall be less than the Current Warrant Price or the Current Market Price in effect immediately prior to the time of such record, issue or sale, then the number of shares of Common Stock for which this Warrant is exercisable and the Current Warrant Price shall be adjusted as provided in Section 4.3 on the basis that the maximum number of Additional Shares of Common Stock necessary to effect the conversion or exchange of all such Convertible Securities shall be deemed to have been issued and outstanding and Company shall have received all of the consideration payable therefor, if any, as of the date of issuance of such Convertible Securities. No adjustment of the

number of shares of Common Stock for which this Warrant is exercisable and the Current Warrant Price shall be made under this Section 4.5 upon the issuance of any Convertible Securities which are issued pursuant to the exercise of any warrants or other subscription or purchase rights therefor, if any such adjustment shall previously have been made upon the issuance of such warrants or other rights pursuant to Section 4.4. If any issue or sale of Convertible Securities is made upon exercise of any warrant or other right to subscribe for or to purchase any such Convertible Securities for which adjustments of the number of shares of Common Stock for which this Warrant is exercisable and the Current Warrant Price have been or are to be made pursuant to Section 4.4, no further adjustments of the number of shares of Common Stock for which this Warrant is exercisable and the Current Warrant Price shall be made by reason of such record, issue or sale.

4.6 Superseding Adjustment. If, at any time after any adjustment of the number of shares of Common Stock for which this Warrant is exercisable and the Current Warrant Price shall have been made pursuant to Section 4.4 or Section 4.5 as the result of any issuance of warrants, rights or Convertible Securities,

(a) such warrants or rights, or the right of conversion or exchange in such other Convertible Securities, shall expire, and all or a portion of such warrants or rights, or the right of conversion or exchange with respect to all or a portion of such other Convertible Securities, as the case may be, shall not have been exercised, or

(b) the consideration per share for which shares of Common Stock are issuable pursuant to such warrants or rights, or the terms of such other Convertible Securities, shall be increased solely by virtue of provisions therein contained for an automatic increase in such consideration per share upon the occurrence of a specified date or event,

then for each outstanding Warrant such previous adjustment shall be rescinded and annulled and the Additional Shares of Common Stock which were deemed to have been issued by virtue of the computation made in connection with the adjustment so rescinded and annulled shall no longer be deemed to have been issued by virtue of such computation. Thereupon, a recomputation shall be made of the effect of such rights or options or other Convertible Securities on the basis of (i) treating the number of Additional Shares of Common Stock or other property, if any, theretofore actually issued or issuable pursuant to the previous exercise of any such warrants or rights or any such right of conversion or exchange, as having been issued on the date or dates of any such exercise and for the consideration actually received and receivable therefor, and (ii) treating any such warrants or rights or any such other Convertible Securities which then remain outstanding as having been granted or issued immediately after the time of such increase of the consideration per share for which shares of Common Stock or other property are issuable under such warrants or rights or other Convertible Securities; whereupon a new adjustment of the number of shares of Common Stock for which this

Warrant is exercisable and the Current Warrant Price shall be made, which new adjustment shall supersede the previous adjustment so rescinded and annulled.

4.7 Other Provisions Applicable to Adjustments under this Section. The following provisions shall be applicable to the making of adjustments of the number of shares of Common Stock for which this Warrant is exercisable and the Current Warrant Price provided for in this Section 4:

(a) Computation of Consideration. To the extent that any Additional Shares of Common Stock or any Convertible Securities or any warrants or other rights to subscribe for or purchase any Additional Shares of Common Stock or any Convertible Securities shall be issued for cash consideration, the consideration received by

Company therefor shall be the amount of the cash received by Company therefor, or, if such Additional Shares of Common Stock or Convertible Securities are offered by Company for subscription, the subscription price, or, if such Additional Shares of Common Stock or Convertible Securities are sold to underwriters or dealers for public offering without a subscription offering, the public offering price (in any such case subtracting any amounts paid or receivable for accrued interest or accrued dividends and without taking into account any compensation, discounts or expenses paid or incurred by Company for and in the underwriting of, or otherwise in connection with, the issuance thereof). To the extent that such issuance shall be for a consideration other than cash, then, except as herein otherwise expressly provided, the amount of such consideration shall be deemed to be the fair market value of such consideration at the time of such issuance as determined in good faith by the Board. In case any Additional Shares of Common Stock or any Convertible Securities or any warrants or other rights to subscribe for or purchase such Additional Shares of Common Stock or Convertible Securities shall be issued in connection with any merger in which Company issues any securities, the amount of consideration therefor shall be deemed to be the fair value, as determined in good faith by the Board, of such portion of the assets and business of the nonsurviving corporation as the Board in good faith shall determine to be attributable to such Additional Shares of Common Stock, Convertible Securities, warrants or other rights, as the case may be. The consideration for any Additional Shares of Common Stock issuable pursuant to any warrants or other rights to subscribe for or purchase the same shall be the consideration received by Company for issuing such warrants or other rights plus the additional consideration payable to Company upon exercise of such warrants or other rights. The consideration for any Additional Shares of Common Stock issuable pursuant to the terms of any Convertible Securities shall be the consideration received by Company for issuing warrants or other rights to subscribe for or purchase such Convertible Securities, plus the consideration paid or payable to Company in respect of the subscription for or purchase of such Convertible Securities, plus the additional consideration, if any, payable to Company upon the exercise of the right of conversion or exchange in such Convertible Securities. In case of the issuance at any time of any Additional Shares of Common Stock or Convertible Securities in payment or satisfaction of any dividends upon any class of stock other than Common Stock, Company shall be deemed to have received for

such Additional Shares of Common Stock or Convertible Securities a consideration equal to the amount of such dividend so paid or satisfied.

(b) When Adjustments to Be Made. The adjustments required by this Section 4 shall be made whenever and as often as any specified event requiring an adjustment shall occur, except that any adjustment of the number of shares of Common Stock for which this Warrant is exercisable that would otherwise be required may be postponed (except in the case of a subdivision or combination of shares of Common Stock, as provided for in Section 4.1) up to, but not beyond the earlier of (i) three years following the date of such event and (ii) date of exercise, if such adjustment either by itself or with other adjustments not previously made adds or subtracts less than 1% of the shares of Common Stock for which this Warrant is exercisable immediately prior to the making of such adjustment. Any adjustment representing a change of less than such minimum amount (except as aforesaid) which is postponed shall be carried forward and made on the earliest of (i) the date on which such adjustment, together with other adjustments required by this Section 4 and not previously made, would result in a minimum adjustment, (ii) three years following the date of any such event requiring adjustment and (iii) on the date of exercise. For the purpose of any adjustment, any specified event shall be deemed to have occurred at the close of business on the date of its occurrence.

(c) Fractional Interests. In computing adjustments under this Section 4, fractional interests in Common Stock shall be taken into account to the nearest 1/10th of a share.

(d) When Adjustment Not Required. If Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or distribution or subscription or purchase rights and shall, thereafter and before the distribution to stockholders thereof, legally abandon its plan to pay or deliver such dividend, distribution, subscription or purchase rights, then thereafter no adjustment shall be required by reason of the taking of such record and any such adjustment previously made in respect thereof shall be rescinded and annulled.

(e) Escrow of Warrant Stock. If after any property becomes distributable pursuant to this Section 4 by reason of the taking of any record of the holders of Common Stock, but prior to the occurrence of the event for which such record is taken, and Holder exercises this Warrant, any Additional Shares of Common Stock issuable upon exercise by reason of such adjustment shall be deemed the last shares of Common Stock for which this Warrant is exercised (notwithstanding any other provision to the contrary herein) and such shares or other property shall be held in escrow for Holder by Company to be issued to Holder upon and to the extent that the event actually takes place, upon payment of the then Current Warrant Price. Notwithstanding any other provision to the contrary herein, if the event for which such record was taken fails to occur or is rescinded, then such escrowed shares shall be cancelled by Company and escrowed property returned to Company.

4.8 Challenge to Good Faith Determination. Whenever the Board shall be required to make a determination in good faith of the fair market value of any item under this Section 4, such determination may be challenged in good faith by the Required Holders, and any dispute shall be resolved by an investment banking or valuation firm of recognized national standing selected by Company and acceptable to the Required Holders.

4.9 Reorganization, Reclassification, Merger, Consolidation or Disposition of Assets. In case of any Organic Change (or any other merger or consolidation to which Company is a party, which for purposes of this Section 4.9 shall be deemed an Organic Change), each Holder shall have the right thereafter to receive, upon exercise of the Warrant, Common Stock issuable upon such exercise prior to consummation of such Organic Change, the kind and amount of shares of stock upon the consummation of such Organic Change by a holder of that number of shares of Common Stock into which the Warrant was exercisable immediately prior to such Organic Change. In case of any Organic Change, the successor or acquiring Person (if other than Company) shall expressly assume the due and punctual observance and performance of each and every covenant and condition of this Warrant to be performed and observed by Company and all the obligations and liabilities hereunder, subject to such modifications as may be deemed appropriate (as determined by resolution of the Board) in order to provide for adjustments of shares of Common Stock for which this Warrant is exercisable which shall be as nearly equivalent as practicable to the adjustments provided for in this Article IV. For purposes of this Section 4.9, “common stock of the successor or acquiring Person” shall include stock of such Person of any class which is not preferred as to dividends or assets over any other class of stock of such Person and which is not subject to redemption and shall also include any evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for any such stock, either immediately or upon the arrival of a specified date or the happening of a specified event and any warrants or other rights to subscribe for or purchase any such stock. The foregoing provisions of this Section 4.9 shall similarly apply to successive reorganizations, reclassifications, mergers, consolidations or disposition of assets.

V. NOTICES TO WARRANT HOLDERS.

5.1 Notice of Adjustments. Whenever an adjustment to this warrant is made pursuant to Section 4, Company shall promptly deliver to each Holder a certificate to be executed by the chief financial officer of Company setting forth, in reasonable detail, the event requiring the adjustment and the method by which such adjustment was calculated, specifying the number of shares of Common Stock for which this Warrant is exercisable and (if such adjustment was made pursuant to Section 4.9) describing the number and kind of any other shares of stock or other property for which this Warrant is exercisable, and any change in the purchase price or prices thereof, after giving effect to such adjustment or change. Company shall keep at its office or agency designated pursuant to Section 13.2 copies of all such certificates and cause the same to be available

for inspection at said office during normal business hours by any Holder or any prospective purchaser of a Warrant designated by a Holder thereof.

5.2 Notice of Corporate Action. If at any time

(a) Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or other distribution, or any right to subscribe for or purchase any evidences of its indebtedness, any shares of stock of any class or any other securities or property, or to receive any other right, or

(b) there shall be any capital reorganization of Company, any reclassification or recapitalization of the capital stock of Company or any consolidation or merger of Company with, or any sale, transfer or other disposition of all or substantially all the property, assets or business of Company to, another corporation, or

(c) there shall be a voluntary or involuntary dissolution, liquidation or winding up of Company;

then, in any one or more of such cases, Company shall give to Holder (i) at least 30 days' prior written notice of the date on which a record date shall be selected in respect of such event and (ii) in the case of any such event, at least 60 days' prior written notice of the date when the same shall take place; provided that in the case of an Organic Change to which Section 4.9 applies, Company shall give at least 30 days' prior written notice as aforesaid. Such notice shall also specify (i) the date on which the holders of Common Stock shall be entitled to any such dividend, distribution or right, and the amount and character thereof and (ii) the date on which any such reorganization, reclassification, merger, consolidation, sale, transfer, disposition, dissolution, liquidation or winding up is to take place and the time, if any such time is to be fixed, as of which the holders of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such event.

VI. NO IMPAIRMENT.

Company shall not by any action, including, without limitation, amending its articles of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder against impairment. Without limiting the generality of the foregoing, Company will take all such action as may be necessary or appropriate in order that Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant, including taking such action as is necessary for the Current Warrant Price to be not less than the par value of the shares of Common Stock issuable upon exercise of this Warrant. Company will use its best efforts to obtain all such

authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable Company to perform its obligations under this Warrant.

VII. RESERVATION AND AUTHORIZATION OF COMMON STOCK.

From and after the date hereof, Company shall at all times reserve and keep available for issue upon the exercise of Warrants such number of its authorized but unissued shares of Common Stock as will be sufficient to permit the exercise in full of all outstanding Warrants. All shares of Common Stock which shall be so issuable, when issued upon exercise of any Warrant and payment therefor in accordance with the terms of such Warrant, shall be duly and validly issued and fully paid and nonassessable, and not subject to preemptive rights.

VIII. TAKING OF RECORD; STOCK AND WARRANT TRANSFER OF BOOKS.

In the case of all dividends or other distributions by Company to the holders of its Common Stock with respect to which any provision of Section 4 refers to the taking of a record of such holders, Company will take such record as of the close of business on a Business Day. Company will not at any time, except upon dissolution, liquidation or winding up of Company, close its stock transfer books or Warrant transfer books so as to prevent or delay the exercise or transfer of any Warrant.

IX. RESTRICTIONS ON TRANSFERABILITY.

The Warrants and the Warrant Stock shall not be transferred, hypothecated or assigned before satisfaction of the conditions specified in this Section 9, which conditions are intended to ensure compliance with the provisions of the Securities Act with respect to the Transfer of any Warrant or any Warrant Stock. Holder, by acceptance of this Warrant, agrees to be bound by the provisions of this Section 9.

9.1 Restrictive Legend. (a) Except as otherwise provided in this Section 9, each certificate for Warrant Stock initially issued upon the exercise of this Warrant, and each certificate for Warrant Stock issued to any subsequent transferee of any such certificate, shall be stamped or otherwise imprinted with a legend in substantially the following form:

> "The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, and may not be transferred in violation of such Act or the rules and regulations thereunder."

(b) Except as otherwise provided in this Section 9, each Warrant shall be stamped or otherwise imprinted with a legend in substantially the following form:

> "This Warrant and the securities represented hereby have not been registered under the Securities Act of 1933, as amended, and may not be transferred in violation of such Act, the rules and regulations thereunder or the provisions of this Warrant."

9.2 Notice of Proposed Transfers; Requests for Registration. Prior to or promptly following any Transfer of any Warrants or any shares of Restricted Common Stock, the holder of such Warrants or Restricted Common Stock shall give written notice to Company of such Transfer. Each certificate, if any, evidencing such shares of Restricted Common Stock issued upon such Transfer shall bear the restrictive legend set forth in Section 9.1(a), and each Warrant issued upon such Transfer shall bear the restrictive legend set forth in Section 9.1(b), unless in the opinion of counsel to such holder which is reasonably acceptable to Company such legend is not required in order to ensure compliance with the Securities Act.

9.3 Termination of Restrictions. Notwithstanding the foregoing provisions of Section 9, the restrictions imposed by this Section upon the transferability of the Warrants and the Warrant Stock, and the legend requirements of Section 9.1, shall terminate as to any particular Warrant or share of Warrant Stock (i) when and so long as such security shall have been effectively registered under the Securities Act and disposed of pursuant thereto or (ii) when Company shall have received an opinion of counsel reasonably satisfactory to it that such shares may be transferred without registration thereof under the Securities Act. Whenever the restrictions imposed by Section 9 shall terminate as to this Warrant, as hereinabove provided, the Holder hereof shall be entitled to receive from Company, at the expense of Company, a new Warrant without the restrictive legend set forth in Section 9.1(b). Whenever the restrictions imposed by this Section shall terminate as to any share of

Warrant Stock, as hereinabove provided, the holder thereof shall be entitled to receive from Company, at Company's expense, a new certificate representing such Warrant Stock not bearing the restrictive legend set forth in Section 9.1(a).

X. SUPPLYING INFORMATION.

Company shall cooperate with each Holder of a Warrant and each holder of Restricted Common Stock in supplying such information as may be reasonably necessary for such holder to complete and file any information reporting forms presently or hereafter required by the SEC as a condition to the availability of an exemption from the Securities Act for the sale of any Warrant or Warrant Stock.

XI. LOSS OR MUTILATION.

Upon receipt by Company from any Holder of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of this Warrant and indemnity reasonably satisfactory to it (it being understood that the written

agreement of GE Investor shall be sufficient indemnity), and in case of mutilation upon surrender and cancellation hereof, Company will execute and deliver in lieu hereof a new Warrant of like tenor to such Holder; provided, in the case of mutilation, no indemnity shall be required if this Warrant in identifiable form is surrendered to Company for cancellation.

XII. LIMITATION OF LIABILITY.

No provision hereof, in the absence of affirmative action by Holder to purchase shares of Common Stock, and no enumeration herein of the rights or privileges of Holder hereof, shall give rise to any liability of such Holder for the purchase price of any Common Stock or as a stockholder of Company, whether such liability is asserted by Company or by creditors of Company.

XIII. MISCELLANEOUS.

13.1 Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies. If Company fails to make, when due, any payments provided for under this Warrant, or fails to comply with any other provision of this Warrant, Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

13.2 Notices. All notices and communications to be given or made under this Warrant shall be in writing and delivered by hand-delivery, registered first class mail (return receipt requested), facsimile, or air courier guaranteeing overnight delivery, addressed as follows or to such other Person or address as the party named below may designate by notice:

(a) If to any Holder or holder of Warrant Stock, at its last known address appearing on the books of Company maintained for such purpose.

(b) If to Company at

PETER HAUSBACK, CFO
7400 EXCELSIOR BLVD.
MINNEAPOLIS, MN 55426

Each such notice or other communication shall be deemed to have been duly given or served on the date on which personally delivered, with receipt acknowledged, telecopied and confirmed by telecopy answerback, or three Business Days after the same shall have been deposited in the United States mail.

13.3 Successors and Assigns. Subject to the provisions of Sections 3.1 and 9, this Warrant and the rights evidenced hereby shall inure to the benefit of and be binding upon the successors of Company and the successors and assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder. No other Person shall have any right, benefit, or obligation under this Warrant.

13.4 Amendment. No amendment or waiver of any provision of this Warrant or any other Warrant shall be effective without the written consent of Company and the Required Holders; provided that no such Warrant may be modified or amended to reduce the number of shares of Common Stock for which such Warrant is exercisable or to increase the price at which such shares may be purchased upon exercise of such Warrant (before giving effect to any adjustment as provided therein) without the prior written consent of the Holder thereof.

13.5 Severability. If one or more provisions of this Warrant are held to be unenforceable to any extent under applicable law, such provision shall be interpreted as if it were written so as to be enforceable to the maximum extent permitted by law so as to effectuate the parties' intent to the maximum extent, and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms to the maximum extent permitted by law.

13.6 Section and Other Headings. The section and headings contained in this Warrant are for the convenience only and shall not affect the meaning or interpretation of this Warrant.

13.7 Governing Law. This Warrant shall be governed by, construed and enforced in accordance with the laws of the State of New York, without regard to the conflict of law principles of such state.

13.8 Covenant Regarding Consent. Company covenants to use its best efforts upon the request of a Holder to seek any waivers or consents, or to take any other action required, to effectuate the exercise of this Warrant by any Holder.

13.9 Limitation on Liability. No provision of this Warrant, in the absence of action by a Holder to receive shares of Common Stock, and no enumeration herein of the rights or privileges of a Holder, shall give rise to any liability of Holder for any value subsequently assigned to the Common Stock or as a stockholder of Company, whether such liability is asserted by the Company or by creditors of Company.

13.10 Remedies. Each Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive the defense in any action for

specific performance that a remedy at law would be adequate. In any action or proceeding brought to enforce any provision of this Warrant or where any provision hereof is validly asserted as a defense, the successful party shall be entitled to recover reasonable attorneys' fees in addition to any other available remedy.

[SIGNATURES BEGIN ON NEXT PAGE]

IN WITNESS WHEREOF, Company has caused this Warrant to be duly executed and attested by its Secretary or an Assistant Secretary.

Dated: October 21, 2009

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By: ______________________________
Name:
Title:

Attest:

By: ______________________________
Name:
Title:

EXHIBIT A

SUBSCRIPTION FORM

[To be executed only upon exercise of Warrant]

The undersigned registered owner of this Warrant irrevocably exercises this Series 2009 Warrant for the purchase of Shares of Common Stock of APPLIANCE RECYCLING CENTERS OF AMERICA, INC. and herewith makes payment therefor, all at the price and on the terms and conditions specified in this Warrant and requests that certificates for the shares of Common Stock hereby purchased (and any securities or other property issuable upon such exercise) be issued in the name of and delivered to whose address is and, if such shares of Common Stock shall not include all of the shares of Common Stock issuable as provided in this Warrant, that a new Warrant of like tenor and date for the balance of the shares of Common Stock issuable hereunder be delivered to the undersigned.

____
(Name of Registered Owner)

____
(Signature of Registered Owner)

____
(Street Address)

____
(City) (State) (Zip Code)

NOTICE: The signature on this subscription must correspond with the name as written upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatsoever.

EXHIBIT B

ASSIGNMENT FORM

FOR VALUE RECEIVED the undersigned registered owner of this Series 2009 Warrant hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned under this Warrant, with respect to the number of shares of Common Stock set forth below:

Name and Address of Assignee	**No. of Shares of Common Stock**

and does hereby irrevocably constitute and appoint attorney-in-fact to register such transfer on the books of APPLIANCE RECYCLING CENTERS OF AMERICA, INC. maintained for the purpose, with full power of substitution in the premises.

Dated: ____________________

Print Name: ____________________

Signature: ____________________

Witness: ____________________

NOTICE: The signature on this assignment must correspond with the name as written upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatsoever.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-33374, 333-126236 and 333-163804) of Appliance Recycling Centers of America, Inc. of our report dated March 17, 2010 which appears on page 34 of this annual report on Form 10-K for the fiscal year ended January 2, 2010.

/s/ BAKER TILLY VIRCHOW KRAUSE, LLP
Minneapolis, Minnesota
March 17, 2010

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Edward R. Cameron, Chief Executive Officer of Appliance Recycling Centers of America, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Appliance Recycling Centers of America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements are made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual repot) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

   d. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Date: March 18, 2010

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Peter P. Hausback, Chief Financial Officer of Appliance Recycling Centers of America, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Appliance Recycling Centers of America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements are made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual repot) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

   d. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Peter P. Hausback
Executive Vice President and Chief Financial Officer

Date: March 18, 2010

Exhibit 32.1

CERTIFICATION

Pursuant to 18 U.S.C. 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Annual Report on Form 10-K of Appliance Recycling Centers of America, Inc. (the "Company") for the fiscal year ended January 2, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Edward R. Cameron, as Chief Executive Officer and Peter P. Hausback, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 18, 2010

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

By: /s/ Peter P. Hausback
Executive Vice President and Chief Financial Officer

This certification accompanies each Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

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