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APPLIANCE RECYCLING CENTERS OF AMERICA INC /MN

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended July 3, 2004

OR

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

Commission file number 0-19621

APPLIANCE RECYCLING CENTERS of AMERICA, INC.

Minnesota	**41-1454591**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7400 Excelsior Blvd.
Minneapolis, Minnesota 55426-4517
(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 ý No ❑

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12B-2 of the Exchange Act). Yes ❑ No ý

As of August 13, 2004, the number of shares outstanding of the registrant's no par value Common Stock was 2,986,277 shares.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

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Appliance Recycling Centers of America, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEET

	July 3, 2004 (Unaudited)	January 3, 2004
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,886,000	$ 1,196,000
Accounts receivable, net of allowance of $51,000 and $117,000, respectively	2,203,000	1,887,000
Inventories, net of reserves of $307,000 and $324,000, respectively	8,386,000	9,338,000
Refundable income taxes	—	904,000
Deferred income taxes	566,000	566,000
Other current assets	441,000	521,000
Total current assets	13,482,000	14,412,000
Property and Equipment, at cost		
Land	2,050,000	2,050,000
Buildings and improvements	4,107,000	4,090,000
Equipment	5,517,000	5,359,000
	11,674,000	11,499,000
Less accumulated depreciation	5,638,000	5,321,000
Net property and equipment	6,036,000	6,178,000
Other Assets	211,000	243,000
Total assets	$ 19,729,000	$ 20,833,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit	$ 5,003,000	$ 5,089,000
Current maturities of long-term obligations	198,000	240,000
Accounts payable	2,893,000	2,958,000
Accrued expenses (Note 2)	1,944,000	2,019,000
Income taxes payable	658,000	660,000
Total current liabilities	10,696,000	10,966,000
Long-Term Obligations, less current maturities	5,115,000	5,209,000
Deferred Income Tax Liabilities	449,000	449,000
Total liabilities	16,260,000	16,624,000
Shareholders' Equity		
Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 2,986,000 and 2,364,000 shares, respectively	11,415,000	11,381,000
Accumulated deficit	(7,946,000)	(7,172,000)
Total shareholders' equity	3,469,000	4,209,000
Total liabilities and shareholders' equity	$ 19,729,000	$ 20,833,000

See Notes to Consolidated Financial Statements.

Appliance Recycling Centers of America, Inc. and Subsidiaries
CONSOLIDATED STATEMENT OF OPERATION S
(Unaudited)

	Three Months Ended		Six Months Ended	
	July 3, 2004	June 28, 2003	July 3, 2004	June 28, 2003
Revenues				
Retail	$ 10,589,000	$ 8,410,000	$ 20,323,000	$ 17,038,000
Recycling	2,060,000	2,078,000	3,655,000	3,393,000
Byproduct	346,000	234,000	614,000	317,000
Total revenues	12,995,000	10,722,000	24,592,000	20,748,000

Cost of Revenues	9,160,000	7,942,000	17,620,000	15,538,000
Gross profit	3,835,000	2,780,000	6,972,000	5,210,000
Selling, General and Administrative Expenses	3,755,000	3,289,000	7,430,000	6,798,000
Operating income (loss)	80,000	(509,000)	(458,000)	(1,588,000)
Other Income (Expense)				
Other expense	(3,000)	(11,000)	(11,000)	(1,000)
Interest expense	(185,000)	(191,000)	(371,000)	(360,000)
Loss before benefit for income taxes	(108,000)	(711,000)	(840,000)	(1,949,000)
Benefit for Income Taxes	(66,000)	(236,000)	(66,000)	(657,000)
Net loss	$ (42,000)	$ (475,000)	$ (774,000)	$ (1,292,000)
Basic Loss per Common Share	$ (0.02)	$ (0.20)	$ (0.32)	$ (0.55)
Diluted Loss per Common Share	$ (0.02)	$ (0.20)	$ (0.32)	$ (0.55)
Weighted Average Number of Common Shares Outstanding:				
Basic	2,506,000	2,344,000	2,421,000	2,340,000
Diluted	2,506,000	2,344,000	2,421,000	2,340,000

See Notes to Consolidated Financial Statements.

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

	Six Months Ended	
	July 3, 2004	June 28, 2003
Cash Flows from Operating Activities		
Net loss	$ (774,000)	$ (1,292,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	317,000	278,000
Loss on sale of equipment	—	6,000
Changes in assets and liabilities:		
Receivables	(316,000)	(711,000)
Inventories	952,000	296,000
Other assets	1,016,000	(61,000)
Accounts payable	(65,000)	(166,000)
Accrued expenses	(75,000)	(24,000)
Income taxes	(2,000)	—
Net cash provided by (used in) operating activities	1,053,000	(1,674,000)
Cash Flows from Investing Activities		
Purchase of property and equipment	(175,000)	(271,000)
Cash Flows from Financing Activities		
Net borrowings (payments) under line of credit	(86,000)	769,000
Proceeds from issuance of common stock	34,000	13,000
Payments on long-term obligations	(136,000)	(147,000)
Net cash provided by (used in) financing activities	(188,000)	635,000
Increase (decrease) in cash and cash equivalents	690,000	(1,310,000)
Cash and Cash Equivalents		
Beginning	1,196,000	2,802,000
Ending	$ 1,886,000	$ 1,492,000
Supplemental Disclosures of Cash Flow Information		
Cash payments (receipts) for:		
Interest	$ 371,000	$ 360,000
Income taxes	(972,000)	(303,000)

See Notes to Consolidated Financial Statements.

Appliance Recycling Centers of America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Financial Statements

In the opinion of management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal, recurring accruals) necessary to present fairly the financial position of the Company and its subsidiaries as of July 3, 2004, and the results of operations for the three-month and six-month periods ended July 3, 2004 and June 28, 2003 and its cash flows for the six-month periods ended July 3, 2004 and June 28, 2003. The results of operations for any interim period are not necessarily indicative of the results for the year. These interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements and related notes in the Company's Annual Report on Form 10-K for the year ended January 3, 2004. Therefore, certain information and footnote disclosures included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted.

2. Accrued Expenses

Accrued expenses were as follows:

	July 3, 2004	January 3, 2004
Compensation and Benefits	$ 867,000	$ 930,000
Warranty Expense	35,000	54,000
Accrued Incentives	686,000	686,000
Other	356,000	349,000
	$ 1,944,000	$ 2,019,000

3. Earnings (Loss) Per Share

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

Since the Company incurred losses for the three and six months ended July 3, 2004 and June 28, 2003, the inclusion of potential option and warrant common shares in the calculation of diluted loss per common share would have been antidilutive. Therefore, basic and diluted weighted-average shares and per-share amounts are the same for these periods.

4. Critical Accounting Policies

The Company's significant accounting policies and estimates are summarized in the footnotes to its annual consolidated financial statements. Some of the most critical policies and estimates are also discussed below:

Revenue recognition: The Company recognizes revenue from appliance sales in the period the appliances are purchased and paid for by a consumer. Revenue from appliance recycling is recognized when a unit is collected and processed. Byproduct revenue is recognized upon shipment.

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

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

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

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

	Three Months Ended		Six Months Ended	
(Unaudited)	July 3, 2004	June 28, 2003	July 3, 2004	June 28, 2003
Balance, beginning	$ 29,000	$ 49,000	$ 54,000	$ 82,000
Standard accrual based on units sold	30,000	20,000	36,000	29,000
Actual costs incurred	(15,000)	(15,000)	(27,000)	(54,000)
Periodic accrual adjustments	(9,000)	(18,000)	(28,000)	(21,000)
Balance, ending	$ 35,000	$ 36,000	$ 35,000	$ 36,000

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

doubtful accounts of $51,000 should be adequate for any exposure to loss in the Company's July 3, 2004 accounts receivable.

Inventories: Inventories, consisting principally of appliances, are stated at the lower of cost, first-in, first-out (FIFO), or market. The Company provides estimated reserves for the realizability of its appliance inventories, including adjustments to market, based on various factors including the age of such inventory and management's assessment of the need for such allowances. Management looks at historical inventory agings and margin analysis in determining its reserve estimate. The Company believes the reserve of $307,000 as of July 3, 2004 is adequate.

Property and equipment: Depreciation is computed using straight-line and accelerated methods over the following estimated useful lives:

	Years
Buildings and improvements	18 - 30
Equipment	3 - 8

The Company did not identify any items that were impaired as of July 3, 2004.

Income taxes: Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to be available to reduce taxable income. At July 3, 2004 a valuation allowance has been recorded against deferred tax assets principally relating to net operating loss and tax credit carryforwards whose use is limited under Section 382 of the Internal Revenue Code.

Stock-based compensation: The Company regularly grants options to its employees under various plans. As permitted under accounting principles generally accepted in the United States of America, these grants are accounted for following APB Opinion No. 25 and related interpretations. Accordingly, compensation cost would be recognized for those grants where the exercise price is less than the fair market value of the stock on the date of grant. There was no compensation expense recorded for employee grants for the three- and six-month periods ended July 3, 2004 and June 28, 2003.

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

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

	Three Months Ended		Six Months Ended	
(Unaudited)	July 3, 2004	June 28, 2003	July 3, 2004	June 28, 2003
Net loss:				
As reported	$ (42,000)	$ (475,000)	$ (774,000)	$ (1,292,000)
Deduct pro forma stock-based compensation	(17,000)	(27,000)	(23,000)	(37,000)
Pro forma	$ (59,000)	$ (502,000)	$ (797,000)	$ (1,329,000)
Basic loss per share:				
As reported	$ (0.02)	$ (0.20)	$ (0.32)	$ (0.55)
Pro forma	$ (0.02)	$ (0.21)	$ (0.33)	$ (0.57)
Diluted loss per share:				
As reported	$ (0.02)	$ (0.20)	$ (0.32)	$ (0.55)
Pro forma	$ 0.02)	$ (0.21)	$ (0.33)	$ (0.57)

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

5. Long-Term Obligations

Long-term obligations consisted of the following:

	July 3, 2004 (Unaudited)	January 3, 2004
6.85% mortgage, due in monthly installments of $15,326, including interest, due January 2013, secured by land and building	$ 1,935,000	$ 1,956,000
Adjustable rate mortgage based on the 30-day LIBOR rate (1.12% as of July 3, 2004) plus 2.7%, adjusted yearly, monthly payments include interest and principal, and are based on a 20-year amortization, due October 2012, secured by land and building	3,258,000	3,340,000
13.00% note payable, due in monthly interest payments of $541 with balance due September 2005, secured by equipment	50,000	50,000
Other	70,000	103,000
	5,313,000	5,449,000
Less current maturities	198,000	240,000
	$ 5,115,000	$ 5,209,000

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

Fiscal year	
For the remainder of 2004	$ 105,000
2005	206,000
2006	238,000
2007	196,000
2008	183,000
2009 and thereafter	4,385,000
	$ 5,313,000

6. Other Information

The Company is a majority (60%) owner in North America Appliance Company, LLC (NAACO). In April 2004, a fire destroyed the building in which NAACO recently leased space. NAACO and ARCA have determined the losses and have submitted most of the claims for items and inventory destroyed in the fire and for business interruption income to the insurance company. Management does not believe the ultimate resolution of this matter

will have a material effect on the Company's consolidated financial statements. Currently, NAACO has found another location in the same area and is continuing to sell special-buy appliances.

PART I: ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of the Company's level of operations and financial condition. This discussion should be read with the consolidated financial statements appearing in Item 1.

OVERVIEW

The Company generates revenues from three sources: retail, recycling and byproduct. Retail revenues are sales of appliances, warranty and service revenue, and delivery fees. Recycling revenues are fees charged for the disposal of appliances. Byproduct revenues are sales of scrap metal and reclaimed chlorofluorocarbons (CFCs) generated from processed appliances. The Company is managed as a unit and does not measure profit or loss separately for its three primary revenue sources. Therefore, the Company believes that it has one operating segment.

RESULTS OF OPERATIONS

Total revenues for the three and six months ended July 3, 2004 were $12,995,000 and $24,592,000, respectively, compared to $10,722,000 and $20,748,000 for the same periods in the prior year, increases of 21% and 19%, respectively.

Retail sales accounted for approximately 81% of revenues in the second quarter of 2004. Retail revenues for the three and six months ended July 3, 2004 increased by $2,179,000 or 26% and $3,285,000 or 19%, respectively, from the same periods in the prior year. Second quarter same-store retail sales increased 13% (a sales comparison of eight stores that were open the entire second quarters of both 2004 and 2003). The increase in retail sales for the three and six months ended July 3, 2004 compared to the prior periods was primarily due to an increase in sales of new in-the-box product of approximately $1,700,000 and $3,400,000, respectively. The increase in sales of new in-the-box product is due to additional purchases of new product and operating one additional store during the periods in 2004 compared to the prior year. Special-buy appliances include manufacturer closeouts, factory overruns, floor samples, returned or exchanged items, and scratch and dent appliances. The Company continues to purchase appliances from Whirlpool Corporation (Whirlpool), Maytag Corporation (Maytag), GE Corporation (GE) and Frigidaire. There are no minimum purchase requirements with any of these manufacturers. The Company believes purchases from these four manufacturers will provide an adequate supply of high-quality appliances for its retail outlets; however, there is a risk that one or more of these sources could be lost.

Currently, the Company has nine retail locations. The Company announced in August 2004 that it will open a new store and production facility in the San Antonio, Texas, market and

open a production facility and second store in the Atlanta, Georgia, market. The Company continually researches potential store locations in all of its markets and any potential markets.

Recycling revenues for the three and six months ended July 3, 2004 decreased by $18,000 or 1% and increased $262,000 or 8%, respectively, from the same periods in the prior year. Recycling revenues were virtually unchanged for the three and six months ended July 3, 2004 compared to the same periods in the prior year. During the second quarter of 2004, the Company recycled appliances under three recycling contracts. These contracts are with Southern California Edison Company (Edison) to handle appliance recycling operations in Edison's service territory for the years of 2004 and 2005; with San Diego Gas & Electric (SDG&E) to handle appliance recycling operations in SDG&E's service territory for 2004; and with The United Illuminating Company and The Connecticut Light & Power Company to handle a joint appliance recycling program in the utilities' service territories for the year 2004. Currently, each utility is responsible for advertising in its service territory.

Byproduct revenues for the three and six months ended July 3, 2004 increased to $346,000 and $614,000 from $234,000 and $317,000, respectively, from the same periods of 2003. The increases were primarily due to an increase in scrap metal prices.

Gross profit as a percentage of total revenues for the three and six months ended July 3, 2004 increased to 30% and 28%, respectively, from 26% and 25%, respectively, for the three and six months ended June 28, 2003. The increase was primarily due to improved efficiencies within all the recycling contracts and an increase in gross margin in sales of new in-the-box and special-buy appliances. Gross profit as a percentage of total revenues for future periods can be affected favorably or unfavorably by numerous factors, including the mix of retail products sold, the prices at which product is purchased from the four manufacturers, the volume of appliances recycled from the Company's recycling contracts and the price and volume of byproduct revenues. The Company believes that gross profit as a percentage of total revenues for the year will be approximately the same as the gross profit as a percentage of total revenues for the first six months of 2004.

Selling, general and administrative expenses for the three and six months ended July 3, 2004 increased by $466,000 or 14% and $632,000 or 9%, respectively, from the same periods in 2003. Selling expenses for the three and six months ended July 3, 2004 increased by $678,000 or 35% and $871,000 or 21%, respectively, from the same periods in 2003. The increase in selling expenses was primarily due to the expense of operating one additional store overall during the first six months of 2004, and an increase in advertising compared to the same period in the previous year. General and administrative expenses for the three and six months ended July 3, 2004 decreased by $212,000 or 16% and $239,000 or 9%, respectively, from the same periods in 2003. The decrease in general and administrative expenses was primarily due to cost control measures implemented during the first six months of 2004.

Interest expense was $185,000 for the three months and $371,000 for the six months ended July 3, 2004 compared to $191,000 and $360,000 for the same periods in 2003.

The Company recorded a benefit for income taxes for the three and six months ended July 3, 2004 of $66,000 compared to $236,000 and $657,000 in same periods in 2003. The benefit for income taxes for 2004 is due to an income tax refund received during the second quarter being greater than the estimated income tax receivable that had been recorded.

The Company has net operating loss carryovers and credit carryforwards of approximately $7 million at July 3, 2004, which may be available to reduce taxable income and therefore income taxes payable in future years. However, future utilization of these loss and credit carryforwards is subject to certain significant limitations under provisions of the Internal Revenue Code, including limitations subject to Section 382, which relate to a 50 percent change in control over a three-year period and are further dependent upon the Company maintaining profitable operations. The Company believes that the issuance of Common Stock during 1999 resulted in an "ownership change" under Section 382. Accordingly, the Company's ability to use net operating loss carryforwards generated prior to February 1999 is limited to approximately $56,000 per year, or less than $1 million through 2018.

At July 3, 2004, the Company had recorded cumulative valuation allowances of approximately $3,402,000 against its net deferred tax assets due to the uncertainty of their realization. The realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to become available to reduce taxable income.

The Company recorded a net loss of $42,000 or $0.02 per basic and diluted share and $774,000 or $0.32 per basic and diluted share for the three and six months ended July 3, 2004, respectively, compared to a net loss of $475,000 or $0.20 per basic and diluted share and $1,292,000 or $0.55 per basic and diluted share in the same periods of 2003. The decrease in the net loss was due to an increase in revenues combined with an increase in the gross profit percentage and a decrease in selling, general and administrative expenses as a percentage of total revenues and no income tax benefit recorded for the three and six months ended July 3, 2004 compared to the same period in 2003.

LIQUIDITY AND CAPITAL RESOURCES

At July 3, 2004, the Company had working capital of $2,786,000 compared to $3,446,000 at January 3, 2004. Cash and cash equivalents increased to $1,886,000 at July 3, 2004 from $1,196,000 at January 3, 2004. Net cash provided by operating activities was $1,053,000 for the six months ended July 3, 2004 compared to net cash used in operating activities of $1,674,000 in the same period of 2003. The cash provided by operating activities was primarily due to a decrease in the net loss and other assets. The decrease in other assets is primarily due to an income tax refund received during the second quarter of 2004.

The Company's capital expenditures for the six months ended July 3, 2004 and June 28, 2003 were approximately $175,000 and $271,000, respectively. The 2004 capital expenditures were primarily related to continued software development of our enterprise-wide software and leasehold improvements related to the opening of the Atlanta, Georgia, retail store. The 2003 capital expenditures were primarily related to continued software development and building improvements.

Net cash used in financing activities was $188,000 for the six months ended July 3, 2004 compared to net cash provided by financing activities of $635,000 in the same period in 2003. The cash used in financing was primarily due to payments on long-term obligations during the six months ended July 3, 2004.

As of July 3, 2004, the Company had a $10.0 million line of credit with a lender. The interest rate on the line as of July 3, 2004 was 5.50%. The amount of borrowings available under the line of credit is based on a formula using receivables and inventories. The line of credit has a stated maturity date of August 30, 2004 and provides that the lender may demand payment in full of the entire outstanding balance of the loan at any time. During July 2004, the Company signed an agreement to extend the maturity date of the line of credit to December 31, 2004. The line of credit is secured by substantially all the Company's assets and requires minimum monthly interest payments of $37,500, regardless of the outstanding principal balance. The lender is also secured by an inventory repurchase agreement with Whirlpool Corporation for purchases from Whirlpool only. The line requires that the Company meets certain financial covenants, provides payment penalties for noncompliance and prepayment, limits the amount of other debt the Company can incur, limits the amount of spending on fixed assets, and limits payments of dividends. At July 3, 2004, the Company had unused borrowing capacity of $45,000.

A summary of the Company's contractual cash obligations at July 3, 2004 is as follows:

(in thousands)	Payments Due by Period						
Contractual Obligations	Total	Remainder of 2004	2005	2006	2007	2008	2009 and There-after
Long-term debt, including interest	$ 7,387	$ 253	$ 546	$ 454	$ 448	$ 448	$ 5,238
Operating leases	7,457	1,085	2,263	1,594	1,220	903	392
Total contractual cash obligations	$ 14,844	$ 1,338	$ 2,809	$ 2,048	$ 1,668	$ 1,351	$ 5,630

The Company also has a commercial commitment as described below:

Other Commercial Commitment	Total Amount Committed	Outstanding at 7/3/04	Date of Expiration
Line of credit	$ 10,000,000	$ 5,003,000	December 31, 2004

The Company believes, based on the anticipated revenues from the Company's recycling contracts, the anticipated sales per retail store and its anticipated gross profit, that its cash balance, anticipated funds generated from operations and current line of credit will be sufficient to finance operations and capital expenditures through December 2004. The Company's total capital requirements for 2004 will depend on, among other things as discussed below, the recycling volumes generated from the recycling contracts in 2004 and the number and size of retail stores operating during the fiscal year. Currently, the Company has four recycling centers and nine retail stores in operation. If revenues are lower than anticipated or expenses are higher than anticipated, the Company may require additional capital to finance operations. Sources of additional financing, if needed in the future, may include further debt financing or the sale of equity (common or preferred stock) or other securities. There can be no assurance that such additional sources of

financing will be available or available on terms satisfactory to the Company or permitted by the Company's current lenders.

FORWARD-LOOKING STATEMENTS

Statements contained in this quarterly report regarding the Company's future operations, performance and results, and anticipated liquidity are forward-looking and therefore are subject to certain risks and uncertainties, including, but not limited to, those discussed herein. Any forward-looking information regarding the operations of the Company will be affected primarily by the Company's continued ability to purchase product from Whirlpool, Maytag, GE and Frigidaire at acceptable prices and the ability and timing of the utility companies to deliver units under the recycling contracts with the Company. In addition, any forward-looking information will also be affected by the ability of individual retail stores to meet planned revenue levels, the rate of sustainable growth in the number of retail stores, the speed at which individual retail stores reach profitability, costs and expenses being realized at higher than expected levels, the Company's ability to secure an adequate supply of special-buy appliances for resale and the continued availability of the Company's current line of credit.

PART I: ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

MARKET RISK AND IMPACT OF INFLATION

The Company does not believe there is any significant risk related to interest rate fluctuations on the long-term fixed-rate debt. However, there are interest rate risks on the line of credit, since its interest rate floats with prime, and on approximately $3,200,000 in long-term debt entered into in September 2002, since its interest rate is based on the 30-day LIBOR rate. Also, the Company believes that inflation has not had a material impact on the results of operations for the three- and six-month periods ended July 3, 2004. However, there can be no assurance that future inflation will not have an adverse impact on the Company's operating results and financial conditions.

PART I: ITEM 4 CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. In accordance with Rule 13a-15(b) of the Securities and Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's management evaluated, with the participation of the Company's President and Chief Executive Officer and Vice President of Finance, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act). Based upon their evaluation of these disclosure controls and procedures, the President and Chief Executive Officer and Vice President of Finance have concluded that the disclosure controls and procedures were effective as of the date of such evaluation to ensure that material information relating to the Company, including its subsidiaries, was made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 0-Q was being prepared.

(b) Changes in internal controls. There was no change in the Company's internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

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

ITEM 2 - CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table gives aggregate information under the Company's equity compensation plans as of July 3, 2004:

	(a) Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))
Equity compensation plans approved by stockholders	405,000	$ 2.05	195,000
Equity compensation plans not approved by stockholders (1)	5,000	$ 0.63	N/A
Total	410,000	$ 2.03	195,000

(1) Warrants issued for services.

WARRANTS

In September 1998, the Company entered into a loan agreement with a lender resulting in gross proceeds to the Company of $3.5 million. In connection with this loan, the Company issued the lender a warrant to purchase 700,000 shares of Common Stock at an adjustable exercise price, which was $0.60 per share. During June 2004, the warrant was exercised resulting in the issuance of 532,000 shares of Common Stock.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES - None

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

On April 29, 2004 the Annual Meeting of Shareholders of Appliance Recycling Centers of America, Inc. was held to obtain the approval of shareholders of record as of March 19, 2004 in connection with the matter indicated below. Proxies were mailed to the holders of 2,443,777 shares. Following is a brief description of the matter voted on at the meeting and the number of votes cast for or withheld, as to the matter:

	Vote	
Matter	**For**	**Withhold Authority**
Election of Directors:		
Edward R. Cameron	2,299,467	8,907
Duane S. Carlson	2,299,929	8,445
Harry W. Spell	2,299,829	8,545

ITEM 5 - EXHIBITS AND REPORTS ON FORM 8-K

(a)(i) Exhibit 10.1 – Amendment to the line of credit dated July 1, 2004 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, Amendment to General Credit and Security Agreements.

(ii) Exhibit 31.1 – Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(iii) Exhibit 31.2 – Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(iv) Exhibit 32 – Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b)(i) The Company filed a Form 8-K on May 3, 2004 announcing it and Southern California Edison Company jointly received a Stratospheric Ozone Protection Award from the U.S. Environmental Protection Agency.

(ii) The Company filed a Form 8-K on May 3, 2004 announcing its 1st Quarter 2004 operating results.

(iii) The Company filed a Form 8-K on May 3, 2004 announcing that it has been selected by The United Illuminating Company and The Connecticut Light & Power Company to handle a joint appliance recycling program in the utilities' service territories for the year 2004.

ITEM 6 - OTHER INFORMATION - None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Appliance Recycling Centers of America, Inc.
Registrant

Date: August 13, 2004

/s/ Edward R. Cameron
Edward R. Cameron
President

Date: August 13, 2004

/s/ Linda Koenig
Linda Koenig
Vice President of Finance

FOURTEENTH AMENDMENT TO
GENERAL CREDIT AND SECURITY AGREEMENT

THIS AGREEMENT, dated and effective as of July 1 **,** 2004, between SPECTRUM Commercial Services Company, a Minnesota Corporation, having its mailing address and principal place of business at Two Appletree Square, Suite 415, Bloomington, Minnesota 55425 (herein called "Lender" or "SCS"), and Appliance Recycling Centers of America, Inc., a Minnesota corporation, having the mailing address and principal place of business at 7400 Excelsior Boulevard, Minneapolis, MN 55426, (herein called "Borrower"), amends that certain General Credit and Security Agreement dated August 30, 1996, ("Credit Agreement") as amended. Where the provisions of this Agreement conflict with the Credit Agreement, the intent of this Agreement shall control.

1. The definition of "Maturity Date" appearing in Paragraph 2 is amended in its entirety to read as follows:
"Maturity Date" shall mean December 31, 2004, provided, however, that the then current Maturity Date shall be extended by succeeding periods of 12 calendar months without notice to or action by either Borrower or Lender, provided further however, that such extension shall not occur if: (i) Lender has notified Borrower of an Event of Default that has occurred and is continuing, or (ii) this Agreement has previously terminated as provided in the paragraph entitled "Termination", or (iii) Lender has, in its sole and absolute discretion, demanded payment of amounts owed hereunder, or (iv) Borrower or Lender have notified the other of the intention not to renew at least sixty days prior to the then current Maturity Date and thereafter no extension shall occur.

2. The Line Maintenance Fee referred to in paragraph 17 (i) shall be pro-rated for this partial year extension making it one-third of the 1/2 % per annum of the Maximum Principal Amount already in force, effective as of the next anniversary date of the Credit Agreement.

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

SPECTRUM COMMERCIAL SERVICES COMPANY

By /s/ Steven Lowenthal
Steven I. Lowenthal, Co-CEO

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By /s/ Jack Cameron
Its President

GUARANTOR ACKNOWLEDGMENT
(Fourteenth Amendment)

The undersigned (collectively the "Guarantor") has entered into certain Guaranties of various dates (collectively the "Guaranty;" capitalized terms not otherwise defined herein being used herein as therein defined), pursuant to which each Guarantor has guarantied the payment and performance of certain Indebtedness of Appliance Recycling Centers of America, Inc., a Minnesota corporation ("Borrower") to SPECTRUM Commercial Services Company, a Minnesota corporation, ("SCS"), which Indebtedness includes, without limitation, all obligations of Borrower under that certain Revolving Note dated as of August 30, 1996 between the Borrower and SCS as subsequently amended and/or restated (as so amended the "Original Loan Agreement").

Each Guarantor hereby acknowledges that it has received a copy of: (a) the Fourteenth Amendment as well as all previous amendments to General Credit and Security Agreement dated as of the date hereof (the "Loan Agreement") between the Borrower and SCS amending and restating the Original Loan Agreement;

Each Guarantor hereby:

(a) agrees and acknowledges that the Guaranty applicable to each Guarantor shall be of an **UNLIMITED AMOUNT,** including without limitation all of Lender's fees, costs, expenses and attorneys' fees incurred in enforcing the Guarantee; and

(b) confirms that:

(i) by the Guaranty, the Guarantor continues to guarantee the full payment and performance of all of the Indebtedness owed to SCS, including, without limitation, all obligations of Borrower under the Original Loan Agreement as amended and restated by the Loan Agreement; and

(ii) with respect to each corporate Guarantor, by such Guarantor's Subsidiary Security Agreement, such Guarantor continues to grant, and hereby does grant, a security interest in all of their respective property and assets as well as the "Collateral" described in such Guarantor's Subsidiary Security Agreement, to secure the payment and performance of the "obligations" described therein; and

(iii) the Guaranty remains in full force and effect, enforceable against the Guarantor in accordance with its terms.

Dated: July 1, 2004

ARCA-MARYLAND, INC.

By /s/ Jack Cameron
Its President

APPLIANCE RECYCLING CENTERS OF AMERICA-CALIFORNIA, INC.

By /s/ Jack Cameron
Its President

ARCA OF ST. LOUIS, INC.

By /s/ Jack Cameron
Its President

NINTH AMENDED AND RESTATED REVOLVING NOTE

$10,000,000.00 July 1, 2004
Bloomington, Minnesota

FOR VALUE RECEIVED, the undersigned, **Appliance Recycling Centers of America, Inc.** promises to pay to the order of SPECTRUM COMMERCIAL SERVICES COMPANY, a Minnesota corporation, (the "Lender") at its office in Bloomington, Minnesota, or at such other place as any present or future holder of this Note may designate from time to time, the principal sum of (i) Ten Million and 00/100 Dollars ($10,000,000.00), or (ii) the aggregate unpaid principal amount of all advances and/or extensions of credit made by the Lender to the undersigned pursuant to this Note as shown in the records of any present or future holder of this Note, whichever is less, plus interest thereon from the date of each advance in whole or in part included in such amount until this Note is fully paid. Interest shall be computed on the basis of the actual number of days elapsed and a 360- day year, at an annual rate equal to One percent (1 %) per annum in excess of the Prime Rate of Wells Fargo Bank Minnesota, NA, and that shall change when and as said Prime Rate shall change; provided, however, that (i) in no event shall the interest rate in effect hereunder at any time be less than 5.5% per annum; and (ii) interest payable hereunder with respect to each calendar month shall not be less than $37,500 regardless of the amount of loans, advances or other credit extensions that actually may have been outstanding during the month.. Interest is due and payable on the first day of each month and at maturity. The term "Prime Rate" means the rate established by Wells Fargo Bank Minnesota, NA in its sole discretion from time to time as its Prime or Base Rate, and the undersigned acknowledges that Wells Fargo Bank and/or Lender may lend to its customers at rates that are at, above or below the Prime Rate. Notwithstanding the foregoing, after an Event of Default, this Note shall bear interest until fully paid at 5% per annum in excess of the rate otherwise then in effect, which rate shall continue to vary based on further changes in the Prime Rate; provided, however, that after an Event of Default, (i) in no event shall the interest rate in effect hereunder at any time be less than 10.0% per annum; and (ii) interest payable hereunder with respect to each calendar month shall not be less than $62,500 regardless of the amount of loans, advances or other credit extensions that actually may have been outstanding during the month. The undersigned also shall pay the holder of this Note a late fee equal to 10% of any payment under this Note that is more than 10 days past due.

All interest, principal, and any other amounts owing hereunder are due on December 31, 2004 or earlier UPON DEMAND by Lender or any holder hereof, and Lender specifically reserves the absolute right to demand payment of all such amounts at any time, with or without advance notice, for any reason or no reason whatsoever. Lender's right to make such demand is not exclusive and Lender may coincidentally or separately from such demand make further demand for payment pursuant to the terms hereof (including but not limited to upon the occurrence of an Event of Default), and further, amounts may become due hereunder without a demand by Lender.

All or any part of the unpaid balance of this Note may be prepaid at any time, provided however, that if Borrower provide Lender with 60 days advance notice thereof. At the option of the then holder of this Note, any payment under this Note may be applied first to the payment of other charges, fees and expenses under this Note and any other agreement or writing in connection with this Note, second to the payment of interest accrued through the date of payment, and third to the payment of principal. Amounts may be advanced and readvanced under this Note at the Lender's sole and absolute discretion, provided the principal balance outstanding shall not exceed the amount first above written. Neither the Lender nor any other person has any obligation to make any advance or readvance under this Note.

The occurrence of any of the following events shall constitute an Event of Default under this Note: (i) any default in the payment of this Note; or (ii) any other default under the terms of any now existing or hereafter arising debt, obligation or liability of any maker, endorser, guarantor or surety of this Note or any other person providing security for this Note or for any guaranty of this Note, including, but not limited to, that certain General Credit and Security Agreement dated August 30, 1996 as it may have been subsequently amended and/or restated; or (iii) the insolvency (other than the insolvency of the undersigned), death dissolution, liquidation, merger or consolidation of any such maker, endorser, guarantor, surety or other person; or (iv) any appointment of a receiver, trustee or similar officer of any property of any such maker,. endorser, guarantor, surety or other person; or (v) any assignment for the benefit of creditors of any such maker, endorser, guarantor, surety or other person; or (vi) any commencement of any proceeding under any bankruptcy, insolvency, dissolution, liquidation or similar law by or against any such maker, endorser, guarantor, surety or other person, provided however, that if such a proceeding is commenced against the maker hereof or any Guarantor on an involuntary basis, then only if such action is not dismissed within 60 days of first being filed; or (vii) the sale, lease or other disposition (whether in one transaction or in a series of transactions) to one or more persons of all or a substantial part of the assets of any such maker, endorser, guarantor, surety or other person; or (viii) any such maker, endorser, guarantor, surety or other person takes any action to revoke or terminate any agreement, liability or security in favor of the Lender; or (ix) the entry of any judgment or other order for the payment of money in the amount of $10,000.00 or more against any such maker, endorser, guarantor, surety or other person which judgment or order is not discharged or stayed in a manner acceptable to the then holder of this Note within 10 days after such entry; or (x) the issuance or levy of any writ, warrant, attachment, garnishment, execution or other process against any property of any such maker, endorser, guarantor, surety or other person; or (xi) the attachment of any tax lien to any property of any such maker, endorser, guarantor, surety or other person which is other than for taxes or assessments not yet due and payable; or (xii) any statement, representation or warranty made by any such maker, endorser, guarantor, surety or other person (or any representative of any such maker, endorser, guarantor, surety or other person) to any present or future holder of this Note at any time shall be false, incorrect or misleading in any material respect when made; or (xiii) there is a material adverse change in the condition (financial or otherwise), business or property of any such maker, endorser, guarantor, surety or other person. Upon the occurrence of an Event of Default and at any time thereafter while an Event of Default is continuing, the then holder of this Note may, at its option, declare this Note to be immediately due and payable and thereupon this Note shall become due and payable for the entire unpaid principal balance of this Note plus accrued interest and other charges on this Note without any presentment, demand, protest or other notice of any kind.

The undersigned: (i) waives demand, presentment, protest, notice of protest, notice of dishonor and notice of nonpayment of this Note; (ii) agrees to promptly provide all present and future holders of this Note from time to time with financial statements of the undersigned and such other information respecting the financial condition, business and property of the undersigned as any such holder of this Note may reasonably request, in form and substance acceptable to such holder of this Note; (iii) agrees that when or at any time after this Note becomes due the then holder of this note may offset or charge the full amount owing on this note against any account then maintained by the undersigned with such holder of this Note without notice; (iv) agrees to pay on demand all fees, costs and expenses of all present and future holders of this Note in connection with this Note and any security and guaranties for this Note, including but not limited to audit fees and expenses and reasonable attorneys' fees and legal expenses, plus interest on such amounts at the rate set forth in this Note; and (v) consents to the personal jurisdiction of the state and federal courts located in the State of Minnesota in connection with any controversy related in any way to this Note or any security

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of guaranty for this Note, waives any argument that venue in such forums is not convenient, and agrees that any litigation initiated by the undersigned against the Lender or any other present or future holder of this Note relating in any way to this Note or any security or guaranty for this Note shall be venued (at the sole option of Lender or the holder hereof) in either the District Court of Dakota or Hennepin County, Minnesota, or the United States District Court, District of Minnesota. Interest on any amount under this Note shall continue to accrue, at the option of any present or future holder of this Note, until such holder receives

final payment of such amount in collected funds in form and substance acceptable to such holder. The maker agrees that, if it brings any action or proceeding arising out of or relating to this Agreement, it shall bring such action or proceeding in the District Court of Hennepin County, Minnesota.

No waiver of any right or remedy under this Note shall be valid unless in writing executed by the holder of this Note, and any such waiver shall be effective only in the specific instance and for the specific purpose given. All rights and remedies of all present and future holders of this Note shall be cumulative and may be exercised singly, concurrently or successively. The undersigned, if more than one, shall be jointly and severally liable under this Note, and the term "undersigned," wherever used in this Note, shall mean the undersigned or anyone or more of them. This Note shall bind the undersigned and the successors and assigns of the undersigned. This Note shall be governed by and construed in accordance with the laws of the State of Minnesota.

This Note amends and restates, but does not repay, that certain Eighth Amended and Restated Revolving Note dated as of August 24, 2001 made by the undersigned payable to the order of Lender in the original principal amount of $10,000,000.00.

THE UNDERSIGNED REPRESENTS, CERTIFIES, WARRANTS AND AGREES THAT THE UNDERSIGNED HAS READ ALL OF THIS NOTE AND UNDERSTANDS ALL OF THE PROVISIONS OF THIS NOTE. THE UNDERSIGNED ALSO AGREES THAT COMPLIANCE BY ANY PRESENT OR FUTURE HOLDER OF THIS NOTE WITH THE EXPRESS PROVISIONS OF THIS NOTE SHALL CONSTITUTE GOOD FAITH AND SHALL BE CONSIDERED REASONABLE FOR ALL PURPOSES.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By /s/ Edward R. Cameron
Edward R. Cameron, Chief Executive Officer

STATE OF MINNESOTA)
) ss.
COUNTY OF Ramsey)

On this 6th day of July, 2004, before me, a Notary Public within and for said county, personally appeared Edward R. Cameron who being by me duly sworn did say that he is the Chief Executive Officer of APPLIANCE RECYCLING CENTERS OF AMERICA, INC. and that the foregoing instrument was signed on behalf of the corporation by authority of its Board of Directors and that he acknowledged said instrument to be the free act and deed of said corporation.

Notary Seal:

/s/ Sara L. Dammann
Notary Signature

Exhibit 31.1

FORM 10-Q CEO CERTIFICATION

CERTIFICATIONS:

I, Edward R. Cameron, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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-15(e) and 15(d) - 15(e)) 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;
   (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 report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officer 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 which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004 By: /s/Edward R. Cameron
Edward R. Cameron, President

Exhibit 31.2

FORM 10-Q CFO CERTIFICATION

CERTIFICATIONS:

I, Linda Koenig, certify that:

6. I have reviewed this quarterly report on Form 10-Q of Appliance Recycling Centers of America, Inc.;

7. 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 report;

8. 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;

9. 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-15(e) and 15(d) - 15(e)) 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;
(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 report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

10. 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 which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004 By: /s/Linda Koenig
Linda Koenig, Vice President of Finance

Exhibit 32

CERTIFICATION

The undersigned certify pursuant to 18 U.S.C. 1350, that:

i. The accompanying Quarterly Report on Form 10-Q for the period ended July 3, 2004, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Very truly yours,

Edward R. Cameron

/s/Edward R. Cameron
President

Linda Koenig

/s/Linda Koenig
Vice President of Finance

Date August 13, 2004

* 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.