

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

APPLIANCE RECYCLING CENTERS OF AMERICA INC /MN

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**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 1, 2011

or

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

Commission File No. 000-19621

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-1454591

(I.R.S. Employer Identification No.)

7400 Excelsior Boulevard, Minneapolis, Minnesota

(Address of principal executive offices)

55426-4517

(Zip Code)

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

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

Common Stock, without par value

Title of each class

NASDAQ Capital Market

Name of each exchange on which registered

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

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of \$2.69 per share, as of July 3, 2010 (the last business day of the registrant's most recently completed second fiscal quarter) was \$14,775,570.

As of March 14, 2011, there were outstanding 5,492,777 shares of the registrant's Common Stock, without par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2011 Annual Meeting of Shareholders to be held on May 12, 2011 are incorporated by reference into Part III hereof.

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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. In addition, we have a 50% interest in a joint venture, ARCA Advanced Processing, LLC ("AAP"), which recycles appliances from a six-state region in the northeastern United States for General Electric Company ("GE") acting through its GE Consumer & Industrial business.

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 STAR® refrigerators for energy efficiency 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 2010, factory shipments of major appliances totaled 61.5 million units in the U.S., an increase of 3.3% over 2009 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. Mercury-containing components may be found in freezers, washers and ranges.
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 refrigerators and freezers.

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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. Approximately twenty-seven percent of all U.S. households currently 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 some segments of their customers, through which older model kitchen and laundry appliances 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 program, RAD partners use best practices to recover ozone-depleting chemicals and other harmful materials from old refrigerators, freezers, room air conditioners and dehumidifiers. In 2010, ApplianceSmart became the first independent retailer in the country to become a RAD partner. Because of our appliance recycling expertise, we were active participants in helping to design the RAD program and currently submit annual reports to the EPA to document the environmental benefits our utility customers that are RAD partners 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.

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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 almost 250 utilities throughout the North America. Some of our current major contracts include:

1. Southern California Edison to handle refrigerator and freezer recycling operations in 75 percent of their service territory.
2. San Diego Gas & Electric to provide refrigerator, freezer and room air conditioner recycling services for their residential and small commercial customers.
3. Southern California Public Power Authority (“SCPPA”), which sponsors a program to replace and recycle old, inefficient refrigerators for a certain segment of their customers. We currently perform these services for all participating members of SCPPA, including the Los Angeles Department of Water and Power.
4. 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.

We also have contracts to recycle, or to replace and recycle, appliances for 175 other utilities across North America.

In the past several years, we have seen a heightened interest from sponsors of energy efficiency initiatives that recognize the effectiveness recycling and replacing energy inefficient appliances. We are aggressively pursuing electric utilities, public housing authorities and energy efficiency management companies in 2011 and expect that we will continue to submit proposals for various new appliance recycling and replacement programs throughout the year. However, we still have a limited ability to project revenues from new utility programs. We cannot predict recycling volumes or if we will be successful obtaining new contracts in 2011.

ApplianceSmart Factory Outlets

As of March 2011, 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: the latest models of new product, and new special-buy appliances, which include prior-year models, close-outs, factory overruns and scratch-and-dent units. One example 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 major manufacturers—primarily Whirlpool, General Electric and Electrolux—ship 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, which we provide.

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: in 2010, the 10 largest retailers of major appliances accounted for more than 84 percent of the sales volume. 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 contracts for purchasing new appliances that we sell at our ApplianceSmart Factory Outlets or provide for utility appliance replacement programs. These contracts, which have been extended through 2011, are with the following five major manufacturers:

1. Whirlpool
2. General Electric

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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 and appliance replacement programs.

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 acting through its GE Consumer & Industrial business. Under the Agreement, GE sells all of its recyclable appliances generated in six states in the northeastern United States to us, and we 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 established a regional processing center (“RPC”) in Philadelphia, Pennsylvania, at which the recyclable appliances are processed. The term of the Agreement is for a period of six years from the first date of collection of recyclable appliances, which was March 31, 2010.

In connection with the Agreement described above, we entered into a Joint Venture Agreement with 4301 Operations, LLC, (“4301”) to establish and operate a

Regional Processing Center. 4301 has substantial experience in the recycling of major household appliances and has contributed their existing business to the joint venture. Under the Joint Venture Agreement, the parties formed a new entity known as ARCA Advanced Processing, LLC and each party has a 50% interest in AAP. If additional RPCs are established, AAP has the right to establish the next two RPCs and will have a right of first refusal to establish subsequent RPCs. We contributed \$2.0 million to the joint venture and 4301 contributed their equipment and existing business to the joint venture. The joint venture commenced operations on February 8, 2010.

The Agreement requires us to purchase and install UNTHA Recycling Technology ("URT") equipment, for which we are the exclusive North American distributor, to enhance the capabilities of the RPC in Philadelphia. We have purchased the URT equipment and are nearing the completion of its installation. We expect the URT system to be operational for recycling refrigerators and freezers in the second quarter of 2011.

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. ARCA California, Inc., a California corporation, is a wholly-owned subsidiary. ARCA California was formed in November 1991 to provide turnkey recycling services for electric utility energy efficiency programs.

ARCA Advanced Processing, LLC, a Minnesota corporation, is a variable interest entity that we consolidate in our financial statements because we have the ability to significantly influence the economic performance of the entity through our contractual agreement with GE. AAP was formed in October 2009 to operate a regional processing and recycling center and commenced operations in February 2010.

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

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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 also 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 2011.

We continue to see 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 2011 and expect that we will continue to submit proposals for various new appliance recycling and replacement programs.

In 2008, we entered into an agreement to become the exclusive North American distributor for UNTHA Recycling Technology, 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 have installed a URT system in our Philadelphia regional processing center and expect it to be fully operational in the second quarter of 2011.

In 2011 AAP is focusing on refining and improving our business with GE at our Philadelphia recycling facility. To position AAP to respond to what we believe will be strong opportunities for expansion in future years with GE and other potential partners, we are concentrating on optimizing our operations by completing the installation of the URT materials recovery system during the second quarter of 2011. Not only will the URT system allow us to expand our recycling capabilities to attract new business, it is also a critical component in our strategy to grow our revenue stream in 2011 while improving our margins.

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 and other sponsors of energy efficiency initiatives that offer their customers appliance recycling and replacement programs as energy conservation measures.

Appliance Manufacturers: We work with appliance manufacturers, including Whirlpool, GE, Electrolux, Bosch and Danby, to acquire the product we sell at our ApplianceSmart Factory Outlet. 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 the latest models of new 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 three 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 or appliance parts 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:

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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 to provide recycling services for 179 utilities in 2011.

Company Operations

We provide a full range of appliance recycling support services for energy efficiency programs in North America. 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 Factory Outlet stores. All appliances we sell are new, under factory warranty and covered by 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. Plastics and other recyclable components are managed by materials recyclers, and we deliver the processed appliance shells to local scrap processing facilities, where they shred and recycle the metals.

At our Philadelphia recycling center, which is operated through the joint venture ARCA Advanced Processing, we recycle appliances from a six-state region for GE. We process the appliances according to the procedures described above to remove environmentally damaging components and substances. Beginning in the second quarter of 2011, we will also be able to process refrigerators and freezers in the URT system to recover the CFCs in polyurethane foam insulation that cause global warming and ozone depletion.

We enter 2011 serving 179 electric utility companies. We are aggressively pursuing additional utility customers, but have a limited ability to project revenues from new utility programs in 2011. 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, closed one underperforming factory outlet in the Atlanta market and one store in San Antonio when the facility lease expired in the third quarter of 2009, and 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 2011. We will also continue to seek additional sources of product to supply our stores with a wide selection of appliances.

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. Replacement revenues are generated through the sale of new ENERGY STAR® appliances to utility companies for installation in the homes of a specific segment of their customers. Byproduct revenues are generated by selling scrap materials, such as metal and plastics, and reclaimed refrigerants from appliances we collect and recycle, including those from our ApplianceSmart stores.

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The table below reflects the percentage of total revenues from each source for the past two fiscal years. See also "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

	2010	2009
Retail	66.2%	74.1%
Recycling	21.1%	22.5%
Byproduct	12.7%	3.4%
	100.0%	100.0%

During fiscal years 2010 and 2009, 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. In 2010, we consolidated AAP in our financial statements. Sales generated by AAP are included in byproduct revenues in our recycling segment. 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 mainly 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 advertising venues and messages, we engaged a consulting group in 2010 to help us analyze our branding and marketing efforts. As a result of our findings, we tested revamped branding and advertising messages in select stores in late 2010. Because of the positive response from consumers, we will roll out the new advertising strategies and messages in all of our markets in 2011.

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 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.

Utility promotional activities are generally 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.

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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. Many of these companies, including used-appliance dealers, that call themselves "appliance recyclers" resell in the secondary market a percentage of the appliances they accept for recycling. The unsalable units may not be properly processed to remove environmentally harmful materials because these companies do not have the capability 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, Edward R. (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. In addition, in 2010 ApplianceSmart became the

first independent retailer in the country to partner with the U.S. EPA in the Responsible Appliance Disposal (RAD) program. Through RAD, partners commit to employing best environmental practices to reduce emissions of ozone-depleting substances and greenhouse gases through the proper disposal of refrigeration appliances at end of life. RAD partners report program results to the EPA annually to help quantify climate protection efforts.

Although we believe that further governmental regulation of the appliance recycling industry could have a positive effect on us, we cannot predict 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 3, 2011 we had 366 full-time employees and 15 part-time employees, distributed approximately as follows:

1. 57% of our employees, including management, provide customer service, appliance collection, transportation and processing services at our recycling centers.
2. 33% 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 retail segment operating losses of \$0.8 million and \$4.2 million in 2010 and 2009, respectively. We have historically experienced improvement in our retail segment as our stores have become established. However, the current consumer cutback in spending related to the purchase of major household appliances has negatively impacted our retail segment profits. Our full financial information is set out in the consolidated financial statements and related notes and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

A large percentage of our revenues is derived from retail sales. However, we expect recycling and byproduct 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 are continuing to see interest in recycling and replacement programs and are pursuing opportunities with providers of energy efficiency services. In fiscal years 2010 and 2009, approximately 66% and 74%, respectively, of our revenues were from retail sales. We believe

that recycling and byproduct revenues will grow faster than retail revenues as we continue to add new recycling contracts and as a result of the impact of our recycling agreement with GE.

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

We purchase the majority of our 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 are very difficult to project and the loss of major recycling contracts could adversely impact our profits.

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 three years, with renewal options and early termination clauses. 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 13% and 17% of our total revenues for 2010 and 2009, 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 2011 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, to operate the initial Regional Processing Center under our contract with GE. AAP was formed in October 2009 and commenced operations in February 2010. For the fiscal year ended January 1, 2011, AAP reported a net loss of \$121,000. 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.

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The volume of appliances under the contract with GE is not guaranteed, although we receive all of their recyclable appliances generated in six states in the northeastern United States. 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, which was March 31, 2010, 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.

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 on, among the other things discussed in this annual report, the number of recycling centers and the number and size of retail stores operating during 2011. Currently, we have nineteen retail stores and ten recycling centers, including AAP, in operation. If our revenues are lower than anticipated, our expenses are higher than anticipated or our 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 fund its operation. Even if we are able to maintain our 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 largely 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 and uncertainty as to the economic outlook has reduced discretionary spending and caused a shift in consumer discretionary spending to other products during fiscal years 2010 and 2009. These factors may likely cause us to delay or slow our expansion plans, may result in reduced sales and could potentially result in excess inventories in 2011. 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 2011.

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.

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

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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 in the event of a default. 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.

On January 24, 2011, we entered with PNC Bank, National Association ("PNC") into a Revolving Credit, Term Loan and Security Agreement, ("PNC Credit Agreement") that provides us with a \$15.0 million revolving line of credit and a \$2.55 million term loan. The PNC Credit Agreement has a stated maturity date of January 24, 2014, if not renewed. The PNC Credit Agreement is collateralized by a security interest in substantially all of our assets, and PNC is also secured by an inventory repurchase agreement with Whirlpool Corporation for Whirlpool purchases only. We also issued a \$0.8 million letter of credit in favor of Whirlpool Corporation. The PNC Credit Agreement requires, starting with the fiscal quarter ending April 2, 2011 and continuing at the end of each fiscal quarter thereafter, that we meet a minimum fixed charge coverage ratio of 1.10:1.00, measured on a trailing twelve-month basis. The PNC Credit Agreement limits investments we can purchase, the amount of other debt we can incur and the amount we can spend on fixed assets, along with prohibiting the payment of dividends. On March 14, 2011, borrowings of \$8.6 million were outstanding under the revolving line of credit, and we had unused borrowing capacity of \$3.2 million.

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 the sale of our St. Louis Park facility and we cannot predict the outcome of the appeal. If we lose the case on appeal it could adversely impact our financial position and results of operations.

In December 2009, a lawsuit was commenced against us in the Fourth Judicial District Court of Hennepin County, Minnesota, by RKL Landholdings, LLC and Emad Y. Abed ("Plaintiffs"), alleging that we breached an agreement to sell our St. Louis Park, Minnesota, property to the Plaintiffs. We sold this property to a third party in September 2009, have received the proceeds from the sale and are currently leasing the property from such third party. Edward R. (Jack) Cameron, our Chief Executive Officer, was also named as a defendant in the lawsuit. The Plaintiffs' claims were based on a Purchase Agreement and extensions thereto between the Plaintiffs and us, which Purchase Agreement and extensions had expired by their own terms. The Plaintiffs asserted various claims, including promissory estoppel, unjust enrichment, conversion, fraud, tortious interference with prospective advantage, and breach of contract. On August 6, 2010, the Hennepin County District Court

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entered a summary judgment in favor of Mr. Cameron and us and dismissed all of the Plaintiffs' claims. The Plaintiffs have appealed the Court's ruling and we believe the summary judgment will be upheld on appeal.

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, Edward R. (Jack) Cameron, Chairman and Chief Executive Officer, beneficially owns approximately 6.5% of our Common Stock. Our officers and directors together beneficially hold approximately 9.4% of our Common Stock. Medallion Capital, Inc. owns approximately 9.0% of our outstanding common shares. Perkins Capital Management, Inc. owns approximately 15.4% of our outstanding common shares. Norman and Sandra Pessin own approximately 9.0% 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 term 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	<i>(Also has 29,000 square feet of warehouse space)</i>
	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	<i>(Also has 58,000 square feet of production/warehouse space)</i>
	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 ten processing and recycling centers. One is located in the facility that we own in California. Eight are leased facilities operated by us in Oakville, Ontario; St. Louis Park, Minnesota; Hilliard, Ohio; Austin, Texas; Springfield, Illinois; Commerce City, Colorado; Kent, Washington; and Morrisville, North Carolina. Our recycling centers typically range in size from 6,000 to 42,000 square feet. We are also operating a processing and recycling center located in Philadelphia, Pennsylvania, through a joint venture agreement. The joint venture, ARCA Advanced Processing, LLC leases a 52,600 square foot facility.

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

ITEM 3. LEGAL PROCEEDINGS

In December 2004, we filed a lawsuit 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. The defendants in the case did not assert any counterclaims against ARCA.

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.

In January 2009, the Court granted JACO a summary judgment with respect to ARCA's claims of unfair competition and false and misleading advertising. Even though the Court's ruling had 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. On May 4, 2010, the Court entered an order affirming the summary judgment granted to JACO.

In December 2009, a lawsuit was commenced against us in the Fourth Judicial District Court of Hennepin County, Minnesota, by RKL Landholdings, LLC and Emad Y. Abed ("Plaintiffs"), alleging that we breached an agreement to sell our St. Louis Park, Minnesota, property to the Plaintiffs. We sold this property to a third party in September 2009, have received the proceeds from the sale and are currently leasing the property from such third party. Edward R. (Jack) Cameron, our Chief Executive Officer, was also named as a defendant in the lawsuit. The Plaintiffs' claims were based on a Purchase Agreement and extensions thereto between the Plaintiffs and us, which Purchase Agreement and extensions had expired by their own terms. The Plaintiffs asserted various claims, including promissory estoppel, unjust enrichment, conversion, fraud, tortious interference with prospective advantage, and breach of contract. On August 6, 2010, the Hennepin County District Court entered a summary judgment in favor of Mr. Cameron and us and dismissed all of the Plaintiffs' claims. The Plaintiffs have appealed the Court's ruling and we believe the summary judgment will be upheld on appeal.

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
2010		
First Quarter	\$ 3.50	\$ 2.10
Second Quarter	3.90	2.69
Third Quarter	3.25	2.09
Fourth Quarter	3.83	3.02
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

On March 14 2011, the last reported sale price of our Common Stock on the NASDAQ Capital Market was \$3.87 per share. As of March 14, 2011, 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 2010 and 2009 and "Item 8. Financial Statements and Supplementary Data." All data is in thousands except per common share data. The data for 2006-2007 has been restated to reflect the impact of the discontinued operations of our NAACO and PDN subsidiaries.

Fiscal Years Ended	2010	2009	2008	2007	2006
Statements of Operations:					
Total revenues	\$ 108,162	\$ 101,269	\$ 110,971	\$ 99,754	\$ 76,857
Gross profit	\$ 32,899	\$ 28,377	\$ 35,610	\$ 32,511	\$ 23,613
Operating income (loss)	\$ 3,069	\$ (2,161)	\$ 4,035	\$ 4,142	\$ (959)
Income (loss) from continuing operations	\$ 2,009	\$ (3,338)	\$ 1,864	\$ 2,476	\$ (1,257)
Net income (loss) attributable to controlling interest	\$ 2,009	\$ (3,338)	\$ 360	\$ 2,539	\$ (1,409)
Basic income (loss) from continuing operations per common share	\$ 0.38	\$ (0.73)	\$ 0.41	\$ 0.56	\$ (0.29)
Basic income (loss) per common share	\$ 0.38	\$ (0.73)	\$ 0.08	\$ 0.58	\$ (0.33)
Diluted income (loss) from continuing operations per common share	\$ 0.37	\$ (0.73)	\$ 0.41	\$ 0.55	\$ (0.29)
Diluted income (loss) per common share	\$ 0.37	\$ (0.73)	\$ 0.08	\$ 0.57	\$ (0.33)
Basic weighted average number of common shares outstanding	5,267	4,578	4,571	4,400	4,335
Diluted weighted average number of common shares outstanding	5,491	4,578	4,612	4,475	4,335
Balance Sheet:					
Working capital	\$ 1,331	\$ 3,719	\$ 5,772	\$ 5,126	\$ 3,026
Total assets	\$ 39,864	\$ 31,450	\$ 37,415	\$ 35,532	\$ 23,913
Long-term liabilities	\$ 3,841	\$ 4,481	\$ 5,412	\$ 5,215	\$ 5,377
Shareholders' equity	\$ 10,208	\$ 5,643	\$ 7,989	\$ 7,262	\$ 4,142
Total equity	\$ 12,147	\$ 5,643	\$ 7,989	\$ 7,262	\$ 4,142

Selected Quarterly Financial Data

The following table sets forth certain unaudited quarterly financial data for the eight quarters ended January 1, 2011. 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.

	Fiscal 2010			
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Total revenues	\$ 27,267	\$ 28,210	\$ 27,338	\$ 25,347
Gross profit	\$ 8,036	\$ 8,668	\$ 8,861	\$ 7,334
Operating income	\$ 394	\$ 1,063	\$ 1,318	\$ 294
Net income	\$ 80	\$ 641	\$ 922	\$ 305
Net income attributable to controlling interest	\$ 102	\$ 719	\$ 885	\$ 303
Basic income per common share	\$ 0.02	\$ 0.13	\$ 0.16	\$ 0.06
Diluted income per common share	\$ 0.02	\$ 0.13	\$ 0.16	\$ 0.05
Basic weighted average number of common shares outstanding	4,588	5,493	5,493	5,493
Diluted weighted average number of common shares outstanding	4,779	5,718	5,686	5,741
	Fiscal 2009			
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th 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)
Net income (loss)	\$ (1,962)	\$ (411)	\$ 416	\$ (1,381)
Net income (loss) attributable to controlling interest	\$ (1,962)	\$ (411)	\$ 416	\$ (1,381)
Basic income (loss) per common share	\$ (0.43)	\$ (0.09)	\$ 0.09	\$ (0.30)
Diluted income (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

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 "Item 6. Selected Financial Data" and "Item 8. Financial Statements and Supplementary Data." 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 "Item 1A. 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. We operate two reportable segments: retail and recycling. The retail segment is comprised of income generated through our ApplianceSmart Factory Outlet stores, including a portion of our byproduct revenues from collected appliances. Our recycling segment includes all fees charged and costs incurred for collecting, recycling and installing appliances for utilities and other customers and includes a significant portion of our byproduct revenue, which is primarily generated through the recycling of appliances. As of January 1, 2011, we operated nineteen factory outlet stores. 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. As of January 1, 2011, we operated ten processing and recycling centers, which are located in California, Colorado, Illinois, Minnesota, North Carolina, Ohio, Pennsylvania, Texas, Washington and Ontario, Canada. We are actively pursuing opportunities to support energy efficiency programs run by electric utility companies throughout North America.

Revenues and earnings in our recycling segment are impacted by seasonal variances, with the latter part of the first quarter and both the second and third quarters generally having higher levels of revenues and earnings. This seasonality is due primarily to our utility customers supporting more marketing and advertising during the spring and summer months. Our customers tend to promote the recycling programs more aggressively during the warmer months because they believe more people want to clean up their garages and basements during that time of the year. However, some customers have shifted to marketing their appliance recycling programs year-round.

In 2009, we had a heightened focus on carefully managing our expenses in both of our operating segments, along with controlling our corporate general and administrative expenses. In 2010, we continued to concentrate on managing our costs in relation to the revenues we generated, which helped to improve our overall gross margins in both segments of our business. However, we also capitalized on opportunities to expand our recycling business in 2010 and signed twelve appliance recycling contracts with electric utility customers. In addition, we renewed all of our existing contracts that were due to expire during the year,

many of which are multi-year agreements.

Along with expanding our core appliance recycling business with electric utility companies, we commenced operations at ARCA Advanced Processing, LLC in February 2010. AAP provides appliance recycling services for General Electric, acting through its GE Consumer & Industrial business component. We signed an agreement with GE in October 2009 to provide these services.

Our retail segment, operating under the name of ApplianceSmart, is similar to many other retailers in that it is seasonal in nature. Historically, the fourth quarter is our weakest quarter in terms of both revenues and earnings. We believe this is primarily because the fourth quarter includes several holidays during which consumers tend to focus less on purchasing major household appliances. In 2010, we continued to streamline our retail operations where appropriate, with an emphasis on improving profitability. Marketing was also enhanced to rebrand ApplianceSmart and we continue to evaluate our overall marketing and the advertising channels we use, including the internet.

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We monitor country-specific economic factors such as retail trends, consumer confidence, manufacturing by the major appliance companies, sales of existing homes and mortgage interest rates as key indicators of industry demand, particularly in our retail segment. Competition in the home appliance industry is intense in the four markets we serve. This includes competition from not only independent retailers, but also from such major retailers as Sears, Best Buy, Home Depot and Lowe's. We also closely monitor the metals and various other scrap markets because of the type of components recovered in our recycling process. This includes monitoring the American Metals Market and the regions throughout the U.S. where we have our recycling centers.

We believe the outlook for our recycling segment remains strong in 2011 and beyond. Electric utility companies throughout the United States continue to support and add appliance recycling programs as part of their broader demand side management energy efficiency programs. However, we also believe the outlook for our overall recycling segment is strong because of the relationship that we built with GE. As a result, we believe we will be able to continue to expand our recycling customer base. We are encouraged by the overall financial improvement in our retail segment. However, because of the continued cutback in consumer spending and decline in the housing market, we do not plan on expanding our retail stores in 2011 but rather will focus on the stores that currently exist.

Fiscal Year. We report on a 52- or 53-week fiscal year. Our 2010 fiscal year ("2010") ended on January 1, 2011 and included 52 weeks. Our 2009 fiscal year ("2009") ended on January 2, 2010 and included 52 weeks.

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. ARCA California, Inc., a California corporation, is a wholly-owned subsidiary. ARCA California was formed in November 1991 to provide turnkey recycling services for electric utility efficiency programs. The operating results of ARCA Canada and ARCA California are consolidated in our financial statements.

Variable Interest Entity. On October 21, 2009, we entered into an Appliance Sales and Recycling Agreement (the "Agreement") with General Electric Company acting through its GE Consumer & Industrial business. Under the Agreement, GE sells all of its recyclable appliances generated in six states in the northeastern United States to us, and we 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 established a regional processing center located in Philadelphia, Pennsylvania, through a joint venture agreement. The joint venture, ARCA Advanced Processing, LLC, was formed in October 2009 between ARCA and 4301 Operations, LLC to support the Agreement. Both ARCA and 4301 have a 50% interest in AAP. The term of the Agreement is for six years from the first date of appliance collection, which was March 31, 2010. AAP commenced operations in February 2010 and has the exclusive rights to service the Agreement as a subcontractor for us. The financial position and results of operations of AAP are consolidated in our financial statements based on our conclusion that AAP is a variable interest entity and because we have the ability to significantly influence the economic performance of the entity through our contractual agreement with GE. As of January 1, 2011, AAP was in the process of installing an UNTHA Recycling Technology materials recovery system for refrigerators and freezers to enhance the capabilities of the RPC. We believe the URT system will be fully operational during the second quarter of 2011.

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 32.7% 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 years 2010 and 2009. In December 2010, we concluded that our investment in DALI was impaired due to several factors that appeared to adversely affect the near-term prospects of DALI's business. As a result, we recorded an other-than-temporary impairment charge 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

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proceeds to pay down our line of credit. In connection with the transaction, we recognized a deferred gain on the transaction of \$2.4 million that is being amortized over the initial lease term.

Recent Developments. On January 24, 2011, we entered with PNC Bank, National Association into a Revolving Credit, Term Loan and Security Agreement, that provides us with a \$15.0 million revolving line of credit and a \$2.55 million term loan. The PNC Credit Agreement has a stated maturity date of January 24, 2014, if not renewed. The PNC Credit Agreement is collateralized by a security interest in substantially all of our assets, and PNC is also secured by an inventory repurchase agreement with Whirlpool Corporation for Whirlpool purchases only. We also issued a \$0.8 million letter of credit in favor of Whirlpool Corporation. The PNC Credit Agreement requires, starting with the fiscal quarter ending April 2, 2011 and continuing at the end of each fiscal quarter thereafter, that we meet a minimum fixed charge coverage ratio of 1.10:1.00, measured on a trailing twelve-month basis. The PNC Credit Agreement limits investments we can purchase, the amount of other debt we can incur and the amount we can spend on fixed assets, along with prohibiting the payment of dividends. In connection with the PNC Credit Agreement, we repaid our existing General Credit and Security Agreement dated August 30, 1996, as amended, with Spectrum Commercial Services and also repaid our existing mortgage with General Electric of \$1.5 million which resulted in \$1.0 million of additional borrowings under the revolving line

of credit. Also in connection with the PNC Credit Agreement, we guaranteed a \$2.1 million loan between PNC (previously with Spectrum Commercial Services) and AAP. The guarantee was provided by reducing the availability under the PNC Credit Agreement by \$2.1 million until the loan is repaid by AAP. The loan between PNC and AAP was repaid by AAP on March 10, 2011 as described below.

On March 10, 2011, ARCA Advanced Processing, LLC entered into three separate commercial term loans ("Term Loans") with Susquehanna Bank, pursuant to the guidelines of the U.S. Small Business Administration 7(a) Loan Program. The total amount of the Term Loans is \$4.75 million, split into three separate loans for \$2.1 million, \$1.4 million and \$1.25 million. AAP intends to use the amount borrowed to repay \$3.78 million of short-term debt and the remaining amount to repay ARCA for loans that are eliminated in the consolidated financial statements and for working capital purposes. The Term Loan matures in ten years and the interest rate is Prime plus 2.75%. The total monthly interest and principal payments are \$53,700 and begin on July 1, 2011. AAP will pay interest only between March 10, 2011 and June 30, 2011.

Results of Operations

The following table sets forth our consolidated financial data as a percentage of total revenues for the fiscal years 2010 and 2009:

	2010	2009
Revenues:		
Retail	66.2%	74.1%
Recycling	21.1	22.5
Byproduct	12.7	3.4
Total revenues	100.0	100.0
Cost of revenues	69.6	72.0
Gross profit	30.4	28.0
Selling, general and administrative expenses	27.6	30.2
Operating income (loss)	2.8	(2.2)
Other income (expense):		
Interest expense, net	(1.0)	(1.1)
Investment impairment charge	(0.2)	—
Other income (expense), net	0.8	(0.0)
Income (loss) before income taxes and noncontrolling interest	2.4	(3.3)
Provision for income taxes	0.6	0.0
Net income (loss)	1.8	(3.3)
Net loss attributable to noncontrolling interest	0.1	—
Net income (loss) attributable to controlling interest	1.9%	(3.3)%

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The following table sets forth the key results of operations by segment for the fiscal years 2010 and 2009 (dollars in millions):

	2010	2009	% Change
Revenues:			
Retail	\$ 72.8	\$ 75.5	(3.6)%
Recycling	35.4	25.8	37.2%
Total revenues	\$ 108.2	\$ 101.3	6.8%
Operating income (loss):			
Retail	\$ (0.8)	\$ (4.2)	80.7%
Recycling	3.7	1.8	109.1%
Unallocated corporate costs	0.2	0.2	(35.0)%
Total operating income (loss)	\$ 3.1	\$ (2.2)	242.0%

Revenues. Revenues for the fiscal years of 2010 and 2009 were as follows (dollars in millions):

	2010	2009	% Change
Retail	\$ 71.6	\$ 75.0	(4.6)%
Recycling	22.9	22.8	0.3%
Byproduct	13.7	3.5	298.8%
	\$ 108.2	\$ 101.3	6.8%

Our total revenues of \$108.2 million for 2010 increased \$6.9 million or 6.8% from \$101.3 million in 2009. The increase in 2010 revenues is attributed primarily to the inclusion of AAP in our recycling segment. AAP generated \$7.6 million in byproduct revenues in 2010. Retail segment revenues were down \$2.7 million or 3.6% in 2010 compared to 2009 due primarily to the continued slower economic climate related to purchasing major household appliances. The inclusion of AAP impacted the overall mix of revenues between the retail and recycling segments. Retail segment revenues accounted for 67% of total revenues in 2010 compared to 75% in 2009. Recycling segment revenues and retail segment revenues each include a portion of byproduct revenues.

Retail Revenues. Our retail revenues of \$71.6 million for 2010 decreased \$3.4 million or 4.6% from \$75.0 million in 2009. The decline in retail revenues was due primarily to a cutback in consumer spending related to purchasing major household appliances and the impact of closing two ApplianceSmart Factory Outlet stores in 2009. Comparable store revenues from ApplianceSmart Factory Outlets operating during the entire fiscal years of 2010 and 2009 decreased 4.1% or \$2.8 million compared to 2009. The impact of closing two factory outlet stores in August 2009 resulted in lower revenues of \$2.6 million in 2010, which was partially offset by \$2.0 million in revenues from our new factory outlet store in Cumming, Georgia, which opened in November 2009.

The table below illustrates our retail revenues by quarter for fiscal years 2010 and 2009 (dollars in millions):

	2010	2009	% Change
Quarter 1	\$ 21.2	\$ 20.9	1.2%
Quarter 2	18.6	19.3	(4.0)%
Quarter 3	16.8	18.0	(6.6)%
Quarter 4	15.0	16.8	(10.4)%
	<u>\$ 71.6</u>	<u>\$ 75.0</u>	(4.6)%

During the first quarter of 2010, we experienced an increase in retail revenues compared to 2009 and the other three quarters of 2010 as a result of the government stimulus rebates to purchase ENERGY STAR® appliances. Retail revenues in the second through fourth quarters of 2010 declined compared to the same period in 2009, with the largest decline occurring in the fourth quarter. The fourth quarter decline was primarily attributed to snowstorms in our Minnesota market and the continued consumer slowdown in purchasing major household appliances. We cannot predict the extent and length of the

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current cutback in consumer spending. We plan to promote sales at our ApplianceSmart Factory Outlet stores in 2011 through revamping our branding and advertising messages. 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 the latest models of new product, and new special-buy appliances, which include prior-year models, close-outs, factory overruns and scratch-and-dent units. All of these appliances are new; we do not sell used appliances.

We continue to purchase the majority of new 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 of \$22.9 million for 2010 increased \$0.1 million or 0.3% from \$22.8 million in 2009. Recycling revenues are comprised of two components: (1) appliance recycling revenues generated by collecting and recycling appliances for utilities and other sponsors of energy efficiency programs and (2) replacement program revenues generated by recycling and replacing old appliances with new energy efficient models for programs sponsored by utility companies. Appliance recycling revenues increased 22.4% to \$19.4 million in 2010 compared to \$15.9 million in 2009, due primarily to new recycling contracts added in 2010. In 2010, we signed twelve contracts to provide recycling services for electric utilities and sponsors of energy efficiency programs. Also in 2010, we renegotiated our contract with a major California utility that resulted in recapturing 25% of its territory that we lost in 2009. Additionally, in 2010 we renewed contracts with various other customers, including all of our major customers. The increase in appliance recycling revenues was mostly offset by a decline in replacement program revenues. Replacement program revenues decreased 50.2% to \$3.5 million in 2010 compared to \$6.9 million in 2009. The decrease was primarily the result of lower volumes for a California utility customer's replacement program. The California utility sponsoring the replacement program reduced its marketing outreach to potential participants in 2010, resulting in an overall decrease in customer enrollment and corresponding revenues; this was planned and expected. In October 2010, we signed a new three-year contract with the appliance replacement customer and expect increases in revenues from the program in 2011. We are aggressively pursuing new appliance recycling and replacement programs throughout North America but cannot predict if we will be successful in signing new contracts or renewing existing contracts.

The table below illustrates our recycling revenues by quarter for fiscal years 2010 and 2009 (dollars in millions):

	2010	2009	% Change
Quarter 1	\$ 4.3	\$ 4.6	(5.9)%
Quarter 2	6.3	5.4	17.7%
Quarter 3	6.6	7.0	(6.6)%
Quarter 4	5.7	5.8	(2.7)%
	<u>\$ 22.9</u>	<u>\$ 22.8</u>	0.3%

Byproduct Revenues. Our byproduct revenues of \$13.7 million for 2010 increased \$10.2 million or 298.8% from \$3.5 million in 2009. The increase was due primarily to the revenues from the operations of AAP, higher scrap metal prices and an increase in recycling volumes from new customers in 2010 compared to 2009. AAP generated \$7.6 million in byproduct revenues since beginning operations in February 2010. Excluding AAP, byproduct revenues increased \$2.6 million or 79.4% compared to \$3.5 million in 2009. In 2010, the average price per ton for steel scrap we process increased to \$238 compared to \$158 in 2009. AAP generated an average price per ton of \$384 for steel scrap. We expect to continue to ramp up our volumes at AAP and under our GE contract in 2011. We cannot predict scrap metal prices, but do not expect significant fluctuations in 2011 as compared to 2010 levels.

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The table below illustrates our byproduct revenues by quarter for fiscal years 2010 and 2009 (dollars in millions):

	2010	2009	% Change
Quarter 1	\$ 1.8	\$ 0.7	173.0%
Quarter 2	3.3	0.7	382.5%
Quarter 3	4.0	1.0	287.9%
Quarter 4	4.6	1.1	332.4%
	<u>\$ 13.7</u>	<u>\$ 3.5</u>	298.8%

Gross Profit. Our gross profit of \$32.9 million in 2010 increased \$4.5 million or 15.9% compared to \$28.4 million in 2009. Gross profit as a percentage of total revenues increased to 30.4%, or 32.5% excluding AAP, in 2010 compared to 28.0% in 2009. The increase, excluding AAP, was due to several factors, including stronger byproduct revenues, better appliance margins and improved operational efficiencies. Gross profit for the retail segment increased to 28.6% in 2010 compared to 25.4% in 2009. The year-over-year increase was related primarily to better appliance margins, operational efficiencies and the closure of two underperforming stores in August 2009. Better appliance margins contributed to a two-basis-point improvement in our retail gross profit percentage and the

remainder of the improvement was the result of cost reductions in shipping and receiving. Additionally, we made a decision to maintain our per-unit prices in 2010 and not follow our competition in reducing per-unit prices. This resulted in lower revenues but higher margin sales. Excluding AAP, our recycling segment gross profit increased to 42.8% compared to 35.6% in 2009, driven primarily by higher byproduct revenues attributable to improved scrap metal prices and increased recycling volumes, operational efficiencies and the economic model related to some of our new recycling contracts. Higher byproduct revenues contributed to a four-basis-point improvement in our recycling gross profit percentage and the remainder of the improvement was the result of new programs in Maryland, New York, North Carolina and Washington, along with our ongoing cost-cutting measures in each of our recycling centers. Gross profit for the recycling segment, including AAP, decreased to 34.2% in 2010 compared to 35.6% in 2009. The decline in recycling gross profit percentage was due primarily to higher operating costs related to AAP as it ramped up production since commencing operations in February 2010.

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 and plastics.

Unless we can significantly increase our appliance purchasing and sales volume, resulting in higher-level rebates, we believe our retail gross profit percentages in 2011 will be consistent with 2010. We expect our recycling gross profit percentages to improve slightly in 2011 as AAP becomes more efficient as we complete the construction and installation of the URT materials recovery system.

Selling, General and Administrative Expenses. Our selling, general and administrative ("SG&A") expenses of \$29.8 million for 2010 decreased \$0.7 million or 2.3% compared to \$30.5 million in 2009. Our SG&A expenses as a percentage of total revenues decreased to 27.6% in 2010 compared to 30.2% in 2009.

Selling expenses decreased \$1.7 million to \$19.4 million in 2010 compared to \$21.1 million in 2009. The decrease in selling expenses was due primarily to lower retail store operating costs as a result of closing two underperforming stores in August 2009 and streamlining our retail management structure. Also in 2010, we reduced our retail advertising expenses by \$0.2 million as compared to 2009. In 2009, we recorded a \$0.3 million lease termination charge related to closing our factory outlet store in Stockbridge, Georgia. General and administrative expenses increased \$1.0 million to \$10.5 million in 2010 compared to \$9.5 million in 2009. The increase in general and administrative expenses was due primarily to the inclusion of \$0.3 million in expenses from AAP and restoring salary and bonus reductions implemented in 2009. We do not expect a significant change in our SG&A expenses in 2011 as a percentage of total revenues compared to 2010.

Interest Expense. Interest expense decreased \$0.2 million to \$1.0 million in 2010 compared to \$1.2 million in 2009. The decrease was due primarily to reducing the weighted average balance on our revolving line of credit and annual interest expense savings from paying off our St. Louis Park facility mortgage in 2009. The decrease in interest expense was partially offset by the

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inclusion of \$0.1 million from AAP. We expect interest expense to increase in 2011 as AAP finalizes the debt financing related to the purchase and installation of its URT materials recovery system in Philadelphia, Pennsylvania. We cannot predict our 2011 line of credit borrowings or what will happen with interest rates on our revolving line of credit in 2011.

Investment Impairment Charge. In December 2010, we concluded that our investment in DALI was impaired and we recorded an other-than-temporary impairment charge of \$0.3 million. We determined that the short-term prospects related to DALI's business were not economically viable.

Other Income (Expense), Net. During the fourth quarter of 2010, we completed an evaluation of our estimated liability for rebate and incentive checks and determined that the estimated liability of \$1.2 million should be reduced to \$0.4 million. We recorded the adjustment to other income.

Provision for Income Taxes. Our provision for income taxes for 2010 increased \$0.7 million compared to 2009. The increase was related primarily to taxable income generated in the United States and Canada. We recorded a \$0.3 million tax provision related to taxable income from our Canadian operations. We also recorded a \$0.4 million tax provision related to taxable income from our U.S. operations. During 2010, we also recognized \$0.3 million related to windfall tax benefits from share-based compensation, which were recorded as additional paid-in capital on the consolidated balance sheets. In 2009, we recognized a discrete tax benefit of approximately \$0.2 million related solely to our Canadian operations compared to the original tax provision estimate for fiscal 2008. As of January 1, 2011 and January 2, 2010, we recorded cumulative valuation allowances of \$1.7 million and \$2.4 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.

Noncontrolling Interest. Noncontrolling interest represents 4301's share of AAP's net loss. Under the AAP joint venture agreement, ARCA and 4301 each have a 50% interest in AAP. AAP reported a net loss of \$121,000 for the year ended January 1, 2011, of which \$60,500 represented the noncontrolling interest.

Liquidity and Capital Resources

Summary. Cash and cash equivalents as of January 1, 2011 were \$3.1 million compared to \$2.8 million as of January 2, 2010. Working capital, the excess of current assets over current liabilities, decreased to \$1.3 million as of January 1, 2011 compared to \$3.7 million as of January 2, 2010. The reduction in working capital was related primarily to current liabilities from AAP. Working capital, excluding AAP, increased \$2.2 million to \$5.9 million as of January 1, 2011 compared to \$3.7 million as of January 2, 2010 due primarily to lowering the balance on our revolving line of credit. Operating cash flow increased 160.1% to \$3.5 million for the year ended January 1, 2011 compared to \$1.3 million for the year ended January 2, 2010. The increase was driven primarily by an increase in our earnings. The current portion of our borrowings increased \$1.6 million to \$14.5 million as of January 1, 2011 compared to \$12.9 million as of January 2, 2010. The increase was related primarily to the inclusion of \$4.0 million of current borrowings from AAP and partially offset by a \$2.3 million decrease in the outstanding balance on our revolving line of credit. In April 2010, we completed a private placement of 915,000 shares of Common Stock at \$2.00 per share, resulting in net proceeds of \$1.7 million. The net proceeds were used to capitalize and support AAP.

The following table summarizes our cash flows for the fiscal years ended January 1, 2011 and January 2, 2010 (in millions):

	2010	2009
Total cash and cash equivalents provided by (used in):		
Operating activities	\$ 3.5	\$ 1.3

Investing activities	(5.6)	2.8
Financing activities	2.3	(4.9)
Effect of exchange rates on cash and cash equivalents	0.1	0.1
Increase (decrease) in cash and cash equivalents	\$ 0.3	\$ (0.7)

Operating Activities. Our net cash provided by operating activities was \$3.5 million in 2010 compared to \$1.3 million in 2009. The increase in net cash provided by operating activities for the year ended January 1, 2011 was related primarily to

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increases in cash provided by net earnings, accounts payable and accrued expenses, which were partially offset by increases in cash used for accounts receivable and appliance inventories. The increases in cash provided by accounts payable and accrued expenses were related to the ramp up of payables at AAP, accrued bonuses and deferred costs, which were partially offset by a \$0.8 million decrease in our estimated liability for rebate and incentive checks. The increase in cash used for accounts receivable was related primarily to the addition of new recycling programs and a higher level of outstanding scrap receivables. The increase in cash used for appliance inventories was the result of weaker retail sales in December 2010 due to the cutback in consumer spending on major appliance purchases and winter storms in our Minnesota market.

Investing Activities. Our net cash used in investing activities was \$5.6 million in 2010 compared to net cash provided by investing activities of \$2.8 million in 2009. Net cash used in investing activities for the year ended January 1, 2011 was related primarily to capital expenditures involving the purchase and installation of AAP's URT equipment in Philadelphia, Pennsylvania. Net cash provided by investing activities for the year ended January 2, 2010 was due primarily to \$4.6 million in proceeds from selling our St. Louis Park, Minnesota, facility and was partially offset by a \$0.7 million credit card processor deposit, capital expenditure purchases of \$0.5 million and joint venture investments of \$0.6 million. In January 2011, the credit card processor released \$0.3 million of the deposit back to us. We did not have any material purchase commitments for assets as of January 1, 2011 or through March 14, 2011 and we do not expect to incur material additional costs in 2011 to finalize placement of AAP's URT equipment.

Financing Activities. Our net cash provided by financing activities was \$2.3 million in 2010 compared to net cash used in financing activities of \$4.9 million in 2009. Net cash provided by financing activities for the year ended January 1, 2011 was related primarily to \$1.7 million in proceeds from the issuance of Common Stock and \$3.8 million in proceeds from the issuance of debt by AAP, which was partially offset by a \$2.3 million reduction in our revolving line of credit balance and \$0.9 million in payments on our long-term borrowings. Net cash used in financing activities for the year ended January 2, 2010 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 a \$2.0 million reduction in our revolving line of credit balance.

Sources of Liquidity. Our principal sources of liquidity are cash from operations and borrowings under our revolving line of credit. Our principal liquidity requirements consist of long-term debt obligations, capital expenditures and working capital. 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 revolving line of credit will be sufficient to finance our operations, long-term debt obligations and capital expenditures through at least December 2011. Our total capital requirements for 2011 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 2011 and our needs related to AAP. Currently, we have nineteen retail stores and ten recycling centers, including AAP, 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 credit agreement.

Outstanding Indebtedness. On August 30, 1996, we entered with Spectrum Commercial Services ("SCS") into a General Credit and Security Agreement, ("SCS Credit Agreement") as amended, that provided us with an \$18.0 million line of credit. The outstanding balance under the SCS Credit Agreement was \$10.1 million as of January 1, 2011 with a stated interest rate of 6.75% (the greater of prime plus 3.50 percentage points or 6.75%). The outstanding balance under the SCS Credit Agreement was \$12.4 million as of January 2, 2010 with a stated interest rate of 6.25% (the greater of prime plus 3.00 percentage points or 6.25%). The amount of borrowings available under the SCS Credit Agreement was based on a formula using accounts receivable and inventories. Our unused borrowing capacity under the SCS Credit Agreement was \$0.4 million and \$0.1 million as of January 1, 2011 and January 2, 2010, respectively. We may not have had access to the full \$18.0 million line of credit due to the formula using our accounts receivable and inventories. The SCS Credit Agreement had a stated maturity date of December 31, 2010, if not renewed or extended, and provided that SCS could demand payment in full of the entire outstanding balance of the loan at any time. The SCS Credit Agreement was collateralized by substantially all our assets and required minimum monthly interest payments of \$58,000, regardless of the outstanding principal balance. SCS was also secured by an inventory repurchase agreement with Whirlpool Corporation for purchases from Whirlpool only. The SCS Credit Agreement required that we meet a minimum profitability covenant and a minimum tangible net worth covenant, provided payment penalties for noncompliance and prepayment, limited the amount of other debt we could incur, limited the amount of spending on fixed assets and prohibited

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payments of dividends. The SCS Credit Agreement had a stated maturity date of December 31, 2010, and was replaced by a new credit agreement with a different lender on January 24, 2011.

The following summarizes our financial covenants under the SCS Credit Agreement:

- 1) A minimum profitability covenant that required the Company to report \$1 of net income for all quarterly periods between Q1 2008 and Q4 2010.
- 2) A minimum annual tangible net worth covenant that required the Company to report a tangible net worth of \$2.9 million plus the annual net income, if applicable, for the fiscal years 2008 and 2009 and \$3.0 million plus the annual net income, if applicable, for fiscal year 2010.

As of January 1, 2011, we were in compliance with all the covenants of the SCS Credit Agreement. As of January 2, 2010, the outstanding balance was \$12.4 million. We were in compliance with all covenants of the SCS Credit Agreement except the minimum profitability covenant and we received a waiver related to this covenant from SCS.

The following table illustrates our covenant compliance for the fiscal years ended January 1, 2011 and January 2, 2010:

Covenant/Period	Actual	Required	Covenant Waived	Outstanding Balance
Profitability				
Q1 2009	\$ (1,962,000)	\$ 1	Yes	\$ 11,381,000
Q2 2009	(411,000)	1	Yes	12,361,000
Q3 2009	416,000	1	n/a	n/a
Q4 2009	(1,381,000)	1	Yes	12,419,000
Q1 2010	102,000	1	n/a	n/a
Q2 2010	719,000	1	n/a	n/a
Q3 2010	885,000	1	n/a	n/a
Q4 2010	303,000	1	n/a	n/a
Tangible Net Worth				
Fiscal Year 2009	\$ 3,241,000	\$ 2,900,000	n/a	n/a
Fiscal Year 2010	8,267,000	3,000,000	n/a	n/a

On November 18, 2010, we guaranteed a \$2.1 million loan between SCS and AAP. The guarantee was provided by reducing the availability under the SCS Credit Agreement by \$2.1 million until the loan was repaid by AAP. We extended the SCS Credit Agreement until January 24, 2011, at which time we repaid the outstanding balance and entered into a new credit agreement as described below.

On January 24, 2011, we entered with PNC Bank, National Association into a Revolving Credit, Term Loan and Security Agreement, that provides us with a \$15.0 million revolving line of credit and a \$2.55 million term loan. The PNC Credit Agreement has a stated maturity date of January 24, 2014, if not renewed. The PNC Credit Agreement is collateralized by a security interest in substantially all of our assets and PNC is also secured by an inventory repurchase agreement with Whirlpool Corporation for Whirlpool purchases only. We also issued a \$0.75 million letter of credit in favor of Whirlpool Corporation. The PNC Credit Agreement requires, starting with the fiscal quarter ending April 2, 2011 and continuing at the end of each fiscal quarter thereafter, that we meet a minimum fixed charge coverage ratio of 1.10:1.00, measured on a trailing twelve-month basis. The PNC Credit Agreement limits investments we can purchase, the amount of other debt we can incur and the amount we can spend on fixed assets, along with prohibiting the payment of dividends.

The amount of revolving borrowings available under the PNC Credit Agreement is based on a formula using accounts receivable and inventories. We may not have access to the full \$15.0 million revolving line of credit due to the formula using our accounts receivable and inventories, the amount of the letter of credit issued in favor of Whirlpool Corporation and the amount of outstanding loans between PNC and our AAP joint venture. The interest rate on the revolving line of credit is PNC Base Rate plus 1.75%, or 1-, 2- or 3-month PNC LIBOR Rate plus 2.75%. The PNC Base Rate shall mean, for any day, a fluctuating per annum rate of interest equal to the highest of (i) the interest rate per annum announced from time to time by

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PNC at its prime rate, (ii) the Federal Funds Open Rate plus ½ of 1%, or (iii) the one month LIBOR rate plus 100 basis points (1%).

The \$2.55 million term loan is payable as follows, subject to acceleration upon the occurrence of an event of default or termination of the PNC Credit Agreement: one hundred nineteen (119) consecutive monthly principal payments of \$21,250 plus interest commencing on February 1, 2011 and continuing on the first day of each month thereafter followed by a one hundred twentieth (120th) payment of all unpaid principal, interest and fees. The term loan is collateralized with our California facility located in Compton, California. The term loan bears interest at PNC Base Rate plus 2.25%, or 1-, 2- or 3-month PNC LIBOR Rate plus 3.25%.

In connection with the PNC Credit Agreement, we repaid our existing General Credit and Security Agreement dated August 30, 1996, as amended, with Spectrum Commercial Services and also repaid our existing mortgage with General Electric of \$1.5 million that resulted in \$1.0 million of additional borrowings under the revolving line of credit. Also in connection with the PNC Credit Agreement, we guaranteed a \$2.1 million loan between PNC (previously with Spectrum Commercial Services) and AAP. The guarantee was provided by reducing the availability under the PNC Credit Agreement by \$2.1 million until the loan is repaid by AAP. The loan between PNC and AAP was repaid by AAP on March 10, 2011 as previously described.

The following table summarizes our borrowings as of January 1, 2011 and January 2, 2010 (in millions):

	January 1, 2011	January 2, 2010
Line of Credit	\$ 10.1	\$ 12.4
Mortgage	1.5	1.6
Notes (1)	4.7	—
Capital leases and other financing obligations	0.7	0.9
	17.0	14.9
Less: current portion of debt	14.5	12.9
	\$ 2.5	\$ 2.0

(1) Represents notes from consolidating AAP.

On December 13, 2010, we guaranteed a 3.00% note, due February 2011, of \$0.3 million between Central Bank and AAP. The guarantee was provided by pledging \$0.3 million of our cash balance at Central Bank until the loan is repaid by AAP. The loan was repaid by AAP on March 10, 2011 as previously described.

The future annual maturities of our borrowings, excluding the line of credit, as of January 1, 2011 are as follows (in millions):

2011	\$ 4.4
2012	0.4
2013	1.5
2014	0.2

2015	0.1
Thereafter	0.3
	<u>\$ 6.9</u>

Off-Balance-Sheet Arrangements and Contractual Obligations

Other than operating leases, we do not have any off-balance-sheet financing. A summary of our operating lease obligations by fiscal year is included in the "Contractual Obligations" table below. Additional information regarding our operating leases is available in "Item 2. Properties" and "Note 11. Commitments and Contingencies" of the Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data."

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The following table represents our contractual obligations (excluding interest), including AAP, as of January 1, 2011 (in millions):

Contractual Obligations	Total	Less Than One Year	1-3 Years	3-5 Years	More Than Five Years
Line of credit (1)	\$ 10.1	\$ 10.1	\$ —	\$ —	\$ —
Mortgage (1)	1.5	0.1	1.4	—	—
Short-term debt obligations	3.8	3.8	—	—	—
Long-term debt obligations	0.9	0.2	0.2	0.2	0.3
Capital lease and other financing obligations	0.7	0.3	0.2	0.2	—
Operating lease obligations (2)	24.5	5.1	8.9	5.5	5.0
Total	<u>\$ 41.5</u>	<u>\$ 19.6</u>	<u>\$ 10.7</u>	<u>\$ 5.9</u>	<u>\$ 5.3</u>

(1) On January 24, 2011, we entered into a Revolving Credit, Term Loan and Security Agreement, with PNC Bank, N.A. that provides us with a \$15.0 million revolving line of credit and a \$2.55 million term loan. In connection with the agreement, we paid off our existing line of credit and mortgage. The balances on our revolving line of credit and term loan as of March 14, 2011 are \$8.6 million and \$2.5 million, respectively.

(2) Operating leases do not include payments to landlords covering real estate taxes and common area maintenance.

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

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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 1, 2011.

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 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

Consolidation of Variable Interest Entities

On January 3, 2010, we adopted 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. The new guidance did not impact our consolidated financial statements upon adoption on January 3, 2010. We applied the new guidance in determining whether to consolidate AAP upon the capitalization and commencement of operations on February 8, 2010.

Accounting for Transfers of Financial Assets

On January 3, 2010, we adopted 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. The new guidance did not have a material impact on the preparation of our consolidated financial statements.

Fair Value Measurement Disclosures

In January 2010, the Financial Accounting Standards Board issued new accounting guidance which requires new disclosures for assets and liabilities measured at fair value. The requirements include expanded disclosure of valuation methodologies for fair value measurements, transfers between levels of the fair value hierarchy, and gross rather than net presentation of certain changes in Level 3 fair value measurements. The new required disclosures are effective for interim and annual periods

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beginning after December 15, 2009, except for requirements related to gross presentation of certain changes in Level 3 fair value measurements, which are effective for interim and annual periods beginning after December 15, 2010. We implemented the portions of the guidance required on January 3, 2010, and the implementation did not have a material impact on the preparation of our consolidated financial statements.

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, the strength of energy conservation recycling programs and volume and associated profits of appliances recycled at AAP. 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 line of credit.

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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 was interest rate risk on the revolving line of credit, since our interest rate floated with prime. The outstanding balance on our revolving line of credit as of January 1, 2011 was approximately \$10.1 million. Although the borrowings on the revolving line of credit as of January 1, 2011 are subject to a minimum interest rate of 6.75%, 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.

On January 24, 2011, we refinanced our revolving line of credit and the interest rate floats based on PNC Base Rate plus 1.75%, or 1-, 2- or 3-month PNC LIBOR Rate plus 2.75%. We also refinanced our fixed rate mortgage on January 24, 2011 and the interest rate floats based on PNC Base Rate plus 2.25%, or 1-, 2- or 3-month PNC LIBOR Rate plus 3.25%. As of March 14, 2011 our floating rate borrowings were \$11.1 million and a hypothetical 100 basis point change

in the applicable interest rate would cause our annual 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 income 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 \$0.3 million in fiscal 2010. In addition, we estimate that such strength had an unfavorable impact of approximately \$0.1 million on our net income in fiscal year 2010. 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 2011.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Consolidated Balance Sheets as of January 1, 2011 and January 2, 2010	37
Consolidated Statements of Operations for the fiscal years ended January 1, 2011 and January 2, 2010	38
Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss) for the fiscal years ended January 1, 2011 and January 2, 2010	39
Consolidated Statements of Cash Flows for the fiscal years ended January 1, 2011 and January 2, 2010	40
Notes to Consolidated Financial Statements	42

"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 Part II, Item 6 of this Annual Report on Form 10-K.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Appliance Recycling Centers of America, Inc. and Subsidiaries (the Company) as of January 1, 2011 and January 2, 2010, and the related consolidated statements of operations, shareholders' equity and comprehensive income (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 1, 2011 and January 2, 2010 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, 2011

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

	January 1, 2011	January 2, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,065	\$ 2,799
Accounts receivable, net of allowance of \$44 and \$41, respectively	5,030	4,252
Inventories, net of reserves of \$286 and \$519, respectively	16,593	16,785
Other current assets	519	532
Deferred income taxes	—	677
Total current assets	25,207	25,045
Property and equipment, net	11,747	4,139
Restricted cash	701	700
Goodwill	1,120	38
Other assets	1,060	1,528
Deferred income taxes	29	—
Total assets (a)	\$ 39,864	\$ 31,450
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,468	\$ 3,364
Checks issued in excess of bank balance	42	410
Accrued expenses	4,771	4,401
Line of credit	10,139	12,419
Current maturities of long-term obligations	4,396	544
Income taxes payable	60	188
Total current liabilities	23,876	21,326
Long-term obligations, less current maturities	2,501	1,963
Deferred gain, net of current portion	1,340	1,827
Deferred income tax liabilities	—	691
Total liabilities (a)	27,717	25,807
Commitments and contingencies	—	—
Shareholders' equity:		
Common Stock, no par value; 10,000 shares authorized; issued and outstanding: 5,493 shares and 4,578 shares, respectively	19,740	17,278
Accumulated deficit	(9,258)	(11,267)
Accumulated other comprehensive loss	(274)	(368)
Total shareholders' equity	10,208	5,643
Noncontrolling interest	1,939	—
	12,147	5,643
Total liabilities and shareholders' equity	\$ 39,864	\$ 31,450

(a) Assets of the consolidated VIE that can only be used to settle obligations of the consolidated VIE were \$10,207 and liabilities of the consolidated VIE for which creditors do not have recourse to the general credit of the Company were \$3,774 as of January 1, 2011.

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 1, 2011	January 2, 2010
Revenues:		
Retail	\$ 71,557	\$ 75,022
Recycling	22,856	22,799
Byproduct	13,749	3,448
Total revenues	108,162	101,269
Cost of revenues	75,263	72,892
Gross profit	32,899	28,377
Selling, general and administrative expenses	29,830	30,538
Operating income (loss)	3,069	(2,161)
Other income (expense):		

Interest expense, net	(1,046)	(1,158)
Investment impairment charge	(266)	—
Other income (expense), net	881	(14)
Income (loss) before provision for income taxes and noncontrolling interest	2,638	(3,333)
Provision for income taxes	690	5
Net income (loss)	1,948	(3,338)
Net loss attributable to noncontrolling interest	61	—
Net income (loss) attributable to controlling interest	\$ 2,009	\$ (3,338)
Income (loss) per common share:		
Basic	\$ 0.38	\$ (0.73)
Diluted	\$ 0.37	\$ (0.73)
Weighted average common shares outstanding:		
Basic	5,267	4,578
Diluted	5,491	4,578

See Notes to Consolidated Financial Statements.

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

	Common Stock		Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount				
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
Net income (loss)	—	—	—	2,009	(61)	1,948
Other comprehensive income, net of tax	—	—	94	—	—	94
Issuance of Common Stock	915	1,721	—	—	—	1,721
Share-based compensation	—	462	—	—	—	462
Excess tax benefits related to share-based compensation	—	279	—	—	—	279
Consolidation of variable interest entity	—	—	—	—	2,000	2,000
Balance at January 1, 2011	5,493	\$ 19,740	\$ (274)	\$ (9,258)	\$ 1,939	\$ 12,147

See Notes to Consolidated Financial Statements.

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

	For the fiscal year ended	
	January 1, 2011	January 2, 2010
Operating activities		
Net income (loss)	\$ 1,948	\$ (3,338)
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	1,402	1,287
Share-based compensation	462	578
Investment impairment charge	266	—
Amortization of deferred gain	(487)	(122)
Deferred income taxes	(43)	(58)
Other	(3)	157
Changes in assets and liabilities:		
Accounts receivable	(794)	1,735
Inventories	192	2,094
Other current assets	421	418
Other assets	(675)	12

Accounts payable and accrued expenses	911	(1,268)
Income taxes payable	(125)	(159)
Net cash flows provided by operating activities	<u>3,475</u>	<u>1,336</u>
Investing activities		
Purchase of property and equipment	(5,627)	(509)
Increase in restricted cash	(1)	(700)
Proceeds from sale of property and equipment	35	4,635
Loan to 4301 Operations	—	(375)
Investment in DALI	—	(263)
Net cash flows (used in) provided by investing activities	<u>(5,593)</u>	<u>2,788</u>
Financing activities		
Checks issued in excess of cash in bank	(368)	410
Net payments under line of credit	(2,280)	(2,180)
Payments on debt obligations	(860)	(3,214)
Proceeds from issuance of debt obligations	3,805	—
Proceeds from issuance of Common Stock, net of fees	1,721	—
Excess tax benefits related to share-based compensation	279	—
Net cash flows provided by (used in) financing activities	<u>2,297</u>	<u>(4,912)</u>
Effect of changes in exchange rate on cash and cash equivalents	87	89
Increase (decrease) in cash and cash equivalents	266	(699)
Cash and cash equivalents at beginning of period	2,799	3,498
Cash and cash equivalents at end of period	<u>\$ 3,065</u>	<u>\$ 2,799</u>

See Notes to Consolidated Financial Statements.

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

	For the fiscal year ended	
	January 1, 2011	January 2, 2010
Supplemental disclosures of cash flow information		
Cash payments for interest	\$ 1,034	\$ 1,161
Cash payments for income taxes, net	\$ 580	\$ 220
Non-cash investing and financing activities		
Loan receivable exchanged for equity in AAP	\$ 475	\$ —
Equipment acquired under financing obligations and capital leases	\$ 241	\$ 259
Deferred gain on sale-leaseback of building	\$ —	\$ 2,436
Issuance of warrant in connection with recycling contract	\$ —	\$ 479
Consolidation of variable interest entity:		
Fair value of assets acquired	\$ 5,766	\$ —
Assumed liabilities	\$ 1,766	\$ —

See Notes to Consolidated Financial Statements.

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

1. Nature of Business and Basis of Presentation

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

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

ARCA Canada Inc., a Canadian corporation, is a wholly-owned subsidiary. ARCA Canada was formed in September 2006 to provide turnkey recycling services

for electric utility energy programs. ARCA California, Inc., a California-owned subsidiary. ARCA California was formed in November 1991 to provide turnkey recycling services for electric utility efficiency programs. The operating results of ARCA Canada and ARCA California are consolidated in our financial statements.

ARCA Advanced Processing, LLC is a joint venture that was formed in October 2009 between ARCA and 4301 Operations, LLC to support ARCA's agreement with General Electric Company acting through its GE Consumer & Industrial business. Both ARCA and 4301 have a 50% interest in AAP. GE sells all of its recyclable appliances generated in six states in the northeastern United States to ARCA, which collects, processes and recycles the appliances. The agreement requires that ARCA will only recycle, and will not sell for re-use or resale, the recyclable appliances purchased from GE. The term of the agreement is for six years from the first date of appliance collection, which was March 31, 2010. AAP commenced operations in February 2010 and has the exclusive rights to service the GE agreement as a subcontractor for ARCA. The financial position and results of operations of AAP are consolidated in our financial statements based on our conclusion that AAP is a variable interest entity and because we have the ability to significantly influence the economic performance of the entity through our contractual agreement with GE.

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.

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Fiscal year: We report on a 52- or 53-week fiscal year. Our 2010 fiscal year ("2010") ended on January 1, 2011 and included 52 weeks. Our 2009 fiscal year ("2009") ended on January 2, 2010 and included 52 weeks.

2. Recent Accounting Pronouncements

Consolidation of Variable Interest Entities

On January 3, 2010, we adopted 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. The new guidance did not impact our consolidated financial statements upon adoption on January 3, 2010. We applied the new guidance in determining whether to consolidate AAP upon the capitalization and commencement of operations on February 8, 2010.

Accounting for Transfers of Financial Assets

On January 3, 2010, we adopted 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. The new guidance did not have a material impact on the preparation of our consolidated financial statements.

Fair Value Measurement Disclosures

In January 2010, the Financial Accounting Standards Board issued new accounting guidance which requires new disclosures for assets and liabilities measured at fair value. The requirements include expanded disclosure of valuation methodologies for fair value measurements, transfers between levels of the fair value hierarchy, and gross rather than net presentation of certain changes in Level 3 fair value measurements. The new required disclosures are effective for interim and annual periods beginning after December 15, 2009, except for requirements related to gross presentation of certain changes in Level 3 fair value measurements, which are effective for interim and annual periods beginning after December 15, 2010. We implemented the portions of the guidance required on January 3, 2010, and the implementation did not have a material impact on the preparation of our consolidated financial statements.

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. Our management considers the allowance for doubtful accounts of \$44 and \$41 to be adequate to cover any exposure to loss as of January 1, 2011 and January 2, 2010, respectively.

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

	January 1, 2011	January 2, 2010
Appliances held for resale	\$ 16,785	\$ 17,304
Processed metals from recycled appliances held for resale	94	—
Less provision for inventory obsolescence	(286)	(519)
	<u>\$ 16,593</u>	<u>\$ 16,785</u>

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

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

	Years
Buildings and improvements	18-30
Equipment (including computer software)	3-15

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 1, 2011	January 2, 2010
Land	\$ 1,140	\$ 1,140
Buildings and improvements	3,104	2,990
Equipment (including computer software)	12,529	9,061
Projects under construction	5,220	21
	<u>21,993</u>	<u>13,212</u>
Less accumulated depreciation and amortization	(10,246)	(9,073)
	<u>\$ 11,747</u>	<u>\$ 4,139</u>

In fiscal year 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.

On February 8, 2010, we included property and equipment of \$3,123 as a result of consolidating AAP in our financial statements, as described in Note 6. At January 1, 2011, we were in the process of installing UNTHA Recycling Technology equipment at AAP. We anticipate the system will be operational and recycling refrigerators and freezers in the second quarter of 2011. We have no additional commitments for additional payments for this equipment as of January 1, 2011.

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 \$1,402 and \$1,287 for the fiscal years ended January 1, 2011 and January 2, 2010, respectively. Depreciation and amortization included in cost of revenues was \$478 and \$350 for the fiscal years ended January 1, 2011 and January 2, 2010, respectively.

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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 \$107 and \$207 for the fiscal years ended January 1, 2011 and January 2, 2010, respectively. Amortization expense on software development costs was \$268 and \$314 for the fiscal years 2010 and 2009, respectively. Estimated amortization expenses are \$176, \$66 and \$19 for the fiscal years 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 1, 2011 and January 2, 2010.

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. On January 4, 2011, our bankcard processor released \$352 of our reserve.

Goodwill: We test goodwill annually for impairment. In assessing the recoverability of goodwill, market values and projections regarding estimated future cash flows and other factors are used to determine the fair value of the respective assets. If these estimates or related projections change in the future, we may be required to record impairment charges for these assets. We allocate goodwill to our two reporting segments, retail and recycling. We compare the fair value of

each reporting segment to its carrying amount on an annual basis to determine if there is potential goodwill impairment. If the fair value of a reporting segment is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than the carrying value of its goodwill. To determine the fair value of our reporting segments, we generally use a present value technique (discounted cash flow) corroborated by market multiples when available and as appropriate. The factor most sensitive to change with respect to the discounted cash flow analyses is the estimated future cash flows of each reporting segment which is, in turn, sensitive to the estimates of future revenue growth and margins for these businesses. If actual revenue growth and/or margins are lower than expectations, the impairment test results could differ. Fair values for goodwill are determined based on discounted cash flows, market multiples or appraised values as appropriate. We did not have any impairment charges to our goodwill for the year ended January 1, 2011.

The changes in the carrying amount of goodwill are as follows:

	Recycling Segment	Total
Balance as of January 2, 2010	\$ 38	\$ 38
Goodwill acquired during the year	1,082	1,082
Balance as of January 1, 2011	<u>\$ 1,120</u>	<u>\$ 1,120</u>

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.

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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 1, 2011 and January 2, 2010 are as follows:

	For the fiscal year ended	
	January 1, 2011	January 2, 2010
Beginning Balance	\$ 67	\$ 91
Standard accrual based on units sold	47	79
Actual costs incurred	(16)	(16)
Periodic accrual adjustments	(62)	(87)
Ending Balance	<u>\$ 36</u>	<u>\$ 67</u>

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 1, 2011.

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 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 \$462 and \$578 for the fiscal years ended January 1, 2011 and January 2, 2010, respectively. We estimate that share-based compensation expense for fiscal years 2011 and 2012 will be approximately \$171 and \$15, respectively, based on the value of options outstanding as of January 1, 2011. This estimate does not include any expense for additional options that may be granted and vest during 2011.

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.

A reconciliation of net income (loss) to comprehensive income (loss) is as follows:

	For the fiscal year ended	
	January 1, 2011	January 2, 2010
Net income (loss)	\$ 1,948	\$ (3,338)
Other comprehensive income (loss), net of tax:		
Effect of foreign currency translation adjustments	94	(65)
Total other comprehensive income (loss), net of tax	94	(65)
Comprehensive income (loss)	2,042	(3,403)
Comprehensive loss attributable to noncontrolling interest	61	—

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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 \$3,520 and \$3,746 for the fiscal years ended January 1, 2011 and January 2, 2010, respectively.

Basic and diluted 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. The effect of all options and warrants outstanding in fiscal year 2009 were anti-dilutive due to the net loss incurred. We excluded 536 options and warrants in fiscal year 2010 from the diluted weighted average shares outstanding calculation as the effect of these options and warrants was anti-dilutive.

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

	For the fiscal year ended	
	January 1, 2011	January 2, 2010
Numerator:		
Net income (loss) attributable to controlling interest	\$ 2,009	\$ (3,338)
Denominator:		
Weighted average common shares outstanding - basic	5,267	4,578
Employee stock options	35	—
Stock warrants	189	—
Weighted average common shares outstanding - diluted	5,491	4,578
Income (loss) per common share:		
Basic	\$ 0.38	\$ (0.73)
Diluted	\$ 0.37	\$ (0.73)

4. Sale-Leaseback Transaction

On September 25, 2009, we completed the sale-leaseback of our St. Louis Park, Minnesota, building. The building is a 126,458-square-foot facility that includes our corporate offices, 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

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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. We amortized \$487 and \$122 of the deferred gain for the fiscal years ended January 1, 2011 and January 2, 2010, respectively. The deferred gain amortization is netted against rent expense as a component of selling, general and administrative expenses in the consolidated statements of operations.

5. Investments

On June 1, 2009, we completed a \$263 investment in Diagnostico y Administracion de Logistica Inversa, S.A. de C.V., a Mexican company. DALI is a joint venture that operates a refrigerator recycling program sponsored by the Mexican government. Our investment represents a 32.7% 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 years ended January 1, 2011 and January 2, 2010. In December 2010, we concluded that our investment in DALI was impaired due to several factors that appeared to adversely affect the near-term prospects of DALI's business. As a result, we recorded an other-than-temporary impairment charge of \$266.

6. Variable Interest Entity

ARCA Advanced Processing, LLC is a joint venture that was formed in October 2009 between ARCA and 4301 Operations, LLC to support ARCA's agreement with General Electric Company acting through its GE Consumer & Industrial business. Both ARCA and 4301 have a 50% interest in AAP. GE sells all of its recyclable appliances generated in six states in the northeastern United States to ARCA, which collects, processes and recycles the appliances. The agreement requires that ARCA will only recycle, and will not sell for re-use or resale, the recyclable appliances purchased from GE. The term of the agreement is for six years from the first date of appliance collection, which was March 31, 2010. AAP commenced operations on February 8, 2010 and has the exclusive rights to service the GE agreement as a subcontractor for ARCA. The financial position and results of operations of AAP are consolidated in our financial statements based on our conclusion that AAP is a variable interest entity and because we have the ability to significantly influence the economic performance of the entity through our contractual agreement with GE.

The following table summarizes the assets and liabilities of AAP as of January 1, 2011:

Assets	
Current assets	\$ 439
Property and equipment, net	8,430
Goodwill	1,082
Other assets	256
Total assets	\$ 10,207
Liabilities	
Accounts payable	\$ 737
Accrued expenses	304
Current maturities of long-term debt obligations	4,000
Long-term debt obligations, net of current maturities	832
Other long-term liabilities (a)	455
Total liabilities	\$ 6,328

(a) Other long-term liabilities represent outstanding loans from ARCA and are eliminated in consolidation.

Revenues and operating loss from AAP for the fiscal year ended January 1, 2011 were \$7,562 and \$58, respectively. As of January 1, 2011, we contributed equity of \$2,000 to AAP, which included \$475 we loaned to 4301 prior to commencing operations on February 8, 2010. As of January 1, 2011, we had outstanding loans to AAP of \$455, which were used to support AAP's operations. The financial position and results of operations for AAP are reported in our recycling segment.

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The following table summarizes the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed as a result of consolidating AAP as a variable interest entity.

	February 8, 2010
Assets	
Current assets	\$ 6
Property and equipment	3,123
Goodwill	1,082
Other assets (b)	1,555
Total assets acquired	5,766
Liabilities	
Accounts payable	(466)
Accrued expenses	(97)
Current maturities of long-term debt obligations	(376)
Long-term debt obligations, net of current maturities	(827)
Total liabilities assumed	(1,766)
Equity contribution from ARCA	(2,000)
Net assets acquired	\$ 2,000

(b) Other assets include a receivable of \$1,525 from ARCA related to equity contributions made in March 2010 and April 2010, which is eliminated upon consolidation.

7. Other Assets

Other assets as of January 1, 2011 and January 2, 2010 consist of the following:

	January 1, 2011	January 2, 2010
Deposits	\$ 443	\$ 407
Investment in DALI	—	263
Loan to 4301	—	375
Recycling contract, net	419	479
Other	198	4
	\$ 1,060	\$ 1,528

On February 8, 2010, we converted \$475 in loans to 4301 Operations, LLC to equity in AAP, including \$375 outstanding as of January 2, 2010. In

8. Accrued Expenses

Accrued expenses as of January 1, 2011 and January 2, 2010 consist of the following:

	January 1, 2011	January 2, 2010
Compensation and benefits	\$ 1,472	\$ 868
Accrued rebate and incentive checks	387	1,232
Accrued rent	1,423	1,176
Warranty expense	36	67
Accrued payables	445	350
Current portion of deferred gain on sale-leaseback of building	487	488
Other	521	220
	<u>\$ 4,771</u>	<u>\$ 4,401</u>

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In December 2010, we completed an evaluation of our liability for rebate and incentive checks and concluded that our estimated liability of \$1,232 needed to be reduced by \$845. We recorded the adjustment to other income in the consolidated statements of operations.

9. Line of Credit

On August 30, 1996, we entered with Spectrum Commercial Services into a General Credit and Security Agreement, as amended, that provided us with an \$18,000 line of credit. The outstanding balance under the SCS Credit Agreement was \$10,139 as of January 1, 2011 with a stated interest rate of 6.75% (the greater of prime plus 3.50 percentage points or 6.75%). The outstanding balance under the SCS Credit Agreement was \$12,419 as of January 2, 2010 with a stated interest rate of 6.25% (the greater of prime plus 3.00 percentage points or 6.25%). The amount of borrowings available under the SCS Credit Agreement was based on a formula using accounts receivable and inventories. Our unused borrowing capacity under the SCS Credit Agreement was \$425 and \$56 as of January 1, 2011 and January 2, 2010, respectively. We may not have access to the full \$18,000 line of credit due to the formula using our accounts receivable and inventories. The SCS Credit Agreement had a stated maturity date of December 31, 2010, if not renewed or extended, and provided that SCS may demand payment in full of the entire outstanding balance of the loan at any time. The SCS Credit Agreement was collateralized by substantially all our assets and requires minimum monthly interest payments of \$58, regardless of the outstanding principal balance. SCS was also secured by an inventory repurchase agreement with Whirlpool Corporation for purchases from Whirlpool only. The SCS Credit Agreement requires that we meet a minimum profitability covenant and a minimum tangible net worth covenant, provided payment penalties for noncompliance and prepayment, limited the amount of other debt we could incur, limited the amount of spending on fixed assets and prohibited payments of dividends.

As of January 1, 2011, we were in compliance with all the covenants of the SCS Credit Agreement. As of January 2, 2010, the outstanding balance was \$12,419 and we were in compliance with all covenants under the SCS Credit Agreement, except the minimum profitability covenant and we received a waiver related to this covenant from SCS.

On November 18, we guaranteed a \$2,100 loan between SCS and AAP. The guarantee was provided by reducing the availability under the SCS Credit Agreement by \$2,100 until the loan is repaid by AAP. We also extended the SCS Credit Agreement until January 24, 2011 at which time we repaid the outstanding balance as described in Note 17.

10. Borrowings

Borrowings as of January 1, 2011 and January 2, 2010 consist of the following:

	January 1, 2011	January 2, 2010
6.85% mortgage, due in monthly installments of \$15, including interest and a maturity date of January 2013, collateralized by land and building	\$ 1,509	\$ 1,659
2.75% note, due in monthly installments of \$3, including interest and a maturity date of October 2024	468	—
10.00% note, due in monthly installments of \$10, including interest and a maturity date of December 2014	440	—
7.25% note, due on demand with a maturity date of December 2011	2,100	—
4.00% note, due on demand with no stated maturity date	1,400	—
3.00% note, due February 2011	280	—
Capital leases and other financing obligations	700	921
	<u>6,897</u>	<u>2,507</u>
Less current maturities	4,396	544
	<u>\$ 2,501</u>	<u>\$ 1,963</u>

On December 13, 2010, we guaranteed a 3.00% note, due in February 2011, of \$280 between Central Bank and AAP. The guarantee was provided by pledging \$280 of our cash balance at Central Bank until the loan is repaid by AAP. The loan was repaid by AAP on March 10, 2011 as described in Note 17.

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The future annual maturities of borrowings are as follows:

	ARCA	AAP	Total
2011	\$ 396	\$ 4,000	\$ 4,396
2012	219	142	361

2013	1,380	153	1,533
2014	38	166	204
2015	32	52	84
Thereafter	—	319	319
	<u>\$ 2,065</u>	<u>\$ 4,832</u>	<u>\$ 6,897</u>

Capital leases and other financing obligations: We acquire certain equipment under capital leases and other financing obligations. The cost of equipment was approximately \$1,660 and \$1,615 at January 1, 2011 and January 2, 2010, respectively. Accumulated amortization at January 1, 2011 and January 2, 2010 was approximately \$1,192 and \$802, respectively. Depreciation and amortization expense for equipment under capital leases and other financing obligations is included in cost of revenues and selling, general and administrative expenses.

The following schedule by fiscal year is the approximate remaining minimum payments required under the capital leases and other financing obligations, together with the present value at January 1, 2011:

	ARCA	AAP	Total
2011	\$ 359	\$ 53	\$ 412
2012	142	28	170
2013	53	28	81
2014	43	28	71
2015	34	21	55
Total minimum lease and other financing obligation payments	631	158	789
Less amount representing interest	75	14	89
Present value of minimum payments	556	144	700
Less current portion	318	23	341
Capital lease and other financing obligations, net of current portion	<u>\$ 238</u>	<u>\$ 121</u>	<u>\$ 359</u>

11. Commitments and Contingencies

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

Minimum future rental commitments under noncancelable operating leases as of January 1, 2011 are as follows:

	ARCA	AAP	Total
2011	\$ 4,823	\$ 231	\$ 5,054
2012	4,449	231	4,680
2013	3,980	231	4,211
2014	3,130	232	3,362
2015	1,997	233	2,230
Thereafter	3,736	1,236	4,972
	<u>\$ 22,115</u>	<u>\$ 2,394</u>	<u>\$ 24,509</u>

Rent expense for the fiscal years ended January 1, 2011 and January 2, 2010 was \$4,766 and \$4,960, respectively.

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.

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Litigation: In December 2004, we filed a lawsuit in the U.S. District Court for the Central District of California alleging that JACO Environmental, Inc. 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. The defendants in the case did not assert any counterclaims against ARCA.

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.

In January 2009, the Court granted JACO a summary judgment with respect to ARCA's claims of unfair competition and false and misleading advertising. Even though the Court's ruling had 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. On May 4, 2010, the Court entered an order affirming the summary judgment granted to JACO.

In December 2009, a lawsuit was commenced against us in the Fourth Judicial District Court of Hennepin County, Minnesota, by RKL Landholdings, LLC and Emad Y. Abed ("Plaintiffs"), alleging that we breached an agreement to sell our St. Louis Park, Minnesota, property to the Plaintiffs. We sold this property to a third party in September 2009, have received the proceeds from the sale and are currently leasing the property from such third party. Edward R. (Jack) Cameron, our Chief Executive Officer, was also named as a defendant in the lawsuit. The Plaintiffs' claims were based on a Purchase Agreement and extensions thereto between the Plaintiffs and us, which Purchase Agreement and extensions had expired by their own terms. The Plaintiffs asserted various claims, including promissory estoppel, unjust enrichment, conversion, fraud, tortious interference with prospective advantage, and breach of contract. On August 6, 2010, the Hennepin County District Court entered a summary judgment in favor of Mr. Cameron and us and dismissed all of the Plaintiffs' claims. The Plaintiffs have appealed the Court's ruling and we believe the summary judgment will be upheld on appeal.

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

12. Income Taxes

The provision for income taxes for the fiscal years ended January 1, 2011 and January 2, 2010 consisted of the following:

	For the fiscal year ended	
	January 1, 2011	January 2, 2010
Current tax expense:		
Federal	\$ 357	\$ —
State	53	39
Foreign	323	24
Current tax expense	\$ 733	\$ 63
Deferred tax expense	(43)	(58)
Provision for income taxes	\$ 690	\$ 5

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A reconciliation of our provision for income taxes with the federal statutory tax rate for the fiscal years ended January 1, 2011 and January 2, 2010 is shown below:

	For the fiscal year ended	
	January 1, 2011	January 2, 2010
Income tax expense (benefit) at statutory rate	\$ 917	\$ (1,133)
State tax expense (benefit), net of federal tax effect	130	(110)
Permanent differences	199	242
Changes in valuation allowance	(635)	192
Reversal of deferred tax asset for change in tax law	—	962
Adjustment of deferred tax asset related to state net operating losses	136	—
Foreign income tax payable true-up	—	(206)
Foreign rate differential	(5)	(3)
Other	(52)	61
	\$ 690	\$ 5

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.

We recorded a \$323 tax provision related to taxable income from our Canadian operations. We also recorded a \$367 tax provision related to taxable income from our U.S. operations. During 2010, we also recognized \$279 of windfall tax benefits from share-based compensation, which was recorded to additional paid-in capital on the consolidated balance sheets.

The components of net deferred tax assets as of January 1, 2011 and January 2, 2010 are as follows:

	January 1, 2011	January 2, 2010
Deferred tax assets:		
Net operating loss carryforwards	\$ 284	\$ 868
Federal and state tax credits	336	323
Reserves	271	367
Accrued expenses	206	229
Share-based compensation	153	107
Deferred gain	720	913
Investments	105	—
Property and equipment	29	—
Total deferred tax assets	2,104	2,807
Deferred tax liabilities:		
Prepaid expenses	(66)	(112)
Property and equipment	(168)	(330)
Investments	(97)	—
Total deferred tax liabilities	(331)	(442)
Valuation allowance	(1,744)	(2,379)
Net deferred tax assets (liabilities)	\$ 29	\$ (14)

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

	January 1, 2010	January 2, 2010
Current assets	\$ —	\$ 677

Non-current assets	29	—
Non-current liabilities	—	(691)
	<u>\$ 29</u>	<u>\$ (14)</u>

At January 1, 2011, 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 decreased in the current year primarily as a result of taxable income generated during the year from U.S. sources. 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. During 2010, ARCA Canada, our foreign subsidiary, had a receivable from us. We computed income of \$98 as result of a deemed dividend and related foreign tax credit.

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 1, 2011, we had federal NOL carryforwards of approximately \$6,691 (\$6,584 of which is subject to IRC section 382 limitations) and alternative minimum tax credits carried forward of approximately \$336. We also had state NOL carryforwards of \$5,225 (\$2,621 of which is subject to IRC section 382 limitations). The NOL carryforwards are available to offset future taxable income or reduce taxes payable through 2029. These loss carryforwards will begin expiring in 2011. We previously wrote off NOLs related to IRC section 382 limits against the valuation allowance. At January 1, 2011, we had \$107 of NOL carryforwards not subject to IRC section 382 limitations expiring in 2029.

A portion of our net operating loss carryforwards (approximately \$107 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. There is no federal NOL deferred tax asset remaining as January 1, 2011.

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 1, 2011, 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 1, 2011, we had an immaterial amount of accrued interest and penalties.

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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 2007. We are not currently under examination by any taxing jurisdiction.

We had no significant unrecognized tax benefits as of January 1, 2011 that would reasonably be expected to affect our effective tax rate during the next twelve months.

13. Shareholders' Equity

Common Stock: In April 2010 we completed a private placement of 915 shares of our Common Stock at \$2.00 per share, resulting in net proceeds of \$1,721. The net proceeds were used to capitalize and support AAP, which was formed to establish and operate our regional processing center in Philadelphia.

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 and expires on June 30, 2011. As of January 1, 2011, 519 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 1, 2011, 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. We issue new Common Stock when stock options are exercised.

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 1, 2011 and January 2, 2010:

	For the fiscal year ended	
	January 1, 2011	January 2, 2010
Expected dividend yield	—	—
Expected stock price volatility	107.44%	105.39%
Risk-free interest rate	2.79%	2.77%
Expected life of options (years)	7.47	7.00

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

	Options Outstanding	Weighted Average Exercise Price
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
Granted	143	3.24
Cancelled/expired	(3)	5.27
Forfeited	(1)	2.22
Balance at January 1, 2011	552	3.87

The weighted average fair value per option of options granted during fiscal years 2010 and 2009 was \$2.82 and \$1.74, respectively.

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The following table summarizes information about stock options outstanding as of January 1, 2011 (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	216	4.47	\$ 5.48	
\$3.55 to \$4.32	138	6.25	3.66	
\$2.22 to \$2.80	161	5.04	2.37	
\$1.50 to \$2.00	37	7.77	1.87	
	552	5.31	3.87	\$ 223

The following table summarizes information about stock options exercisable as of January 1, 2011 (in thousands, except per share data):

Range of Exercise Prices	Options Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$5.05 to \$6.41	261	\$ 5.48	
\$3.55 to \$4.32	52	3.84	
\$2.30 to \$2.80	126	2.39	
\$1.50 to \$2.00	34	1.87	
	428	4.08	\$ 179

The aggregate intrinsic value in the preceding tables represents the total pre-tax intrinsic value, based on our closing stock price of \$3.40 on January 1, 2011, 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 1, 2011 was 160. No stock options were exercised during the fiscal year ended January 1, 2011 and January 2, 2010.

Warrant: On October 21, 2009, we issued a warrant to GE 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 fair value per share of Common Stock underlying the warrant issued to GE was \$1.93 based on our closing stock price of \$1.97. 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. As a result of our private placement offering in April 2010, the number of shares of Common Stock underlying the warrant increased to 254 shares and the exercise price decreased to \$0.73 per share as defined in the agreement. There was no accounting charge as a result of the change in warrant shares or exercise price due to the treatment of the warrant as permanent equity. On May 13, 2010, we issued warrants to non-employees to purchase 24 shares of Common Stock at a price of \$3.55 per share, with a vesting period of two years and a fair value of \$3.03 per share.

The following table summarizes the assumptions used to estimate the fair value of the warrants issued on October 21, 2009 and May 13, 2010 using the Black-Scholes Model:

	May 13, 2010	October 21, 2009
Expected dividend yield	—	—
Expected stock price volatility	105.47%	128.27%
Risk-free interest rate	2.98%	3.42%
Expected life of options (years)	7.00	10.00

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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 years ended January 1, 2011 and January 2, 2010, no single customer represented 10% or more of our total revenues. As of January 1, 2011 and January 2, 2010, three customers and two customers, respectively, each represented more than 10% of our total trade receivables, for a total of 60% of our total trade receivables.

During the two fiscal years ended January 1, 2011 and January 2, 2010, 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.

15. Segment Information

We operate within targeted markets through two reportable segments: retail and recycling. The retail segment is comprised of income generated through our ApplianceSmart Factory Outlet stores, which includes appliance sales and byproduct revenues from collected appliances. The 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. 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.

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The following tables present our segment information for fiscal years 2010 and 2009:

	2010	2009
Revenues:		
Retail	\$ 72,828	\$ 75,517
Recycling	35,334	25,752
Total revenues	\$ 108,162	\$ 101,269
Operating income (loss):		
Retail	\$ (806)	\$ (4,184)
Recycling	3,715	1,777
Unallocated corporate costs	160	246
Total operating income (loss)	\$ 3,069	\$ (2,161)
Assets:		
Retail	\$ 15,952	\$ 18,300
Recycling	16,499	6,380
Corporate assets not allocable	7,413	6,770
Total assets	\$ 39,864	\$ 31,450
Cash capital expenditures:		
Retail	\$ 66	\$ 189
Recycling	5,367	40
Corporate	194	280
Total cash capital expenditures	\$ 5,627	\$ 509
Depreciation and amortization expense:		
Retail	\$ 390	\$ 425
Recycling	475	314
Corporate	537	548
Total depreciation and amortization expense	\$ 1,402	\$ 1,287
Interest expense:		
Retail	\$ 755	\$ 782
Recycling	241	220
Corporate	53	159
Total interest expense	\$ 1,049	\$ 1,161

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 \$28 and \$27 for the fiscal years ended January 1, 2011 and January 2, 2010, respectively.

17. Subsequent Events

On January 24, 2011, we entered with PNC Bank, National Association into a Revolving Credit, Term Loan and Security Agreement, that provides us with a \$15,000 revolving line of credit and a \$2,550 term loan to replace the SCS Credit Agreement discussed in Note 9 and replace the mortgage discussed in Note 10. The PNC Credit Agreement has a stated maturity date of January 24, 2014, if not renewed. The PNC Credit Agreement is collateralized by a security interest in substantially all of our assets and PNC is also secured by an inventory repurchase agreement with Whirlpool Corporation for Whirlpool purchases only. We also issued a \$750 letter of credit in favor of Whirlpool Corporation. The PNC Credit Agreement requires, starting with the fiscal quarter ending

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April 2, 2011 and continuing at the end of each fiscal quarter thereafter, that we meet a minimum fixed charge coverage ratio of 1.10:1.00, measured on a trailing twelve month basis. The PNC Credit Agreement limits investments we can purchase, the amount of other debt we can incur and the amount we can spend on fixed assets along with prohibiting the payment of dividends.

The amount of revolving borrowings available under the PNC Credit Agreement is based on a formula using accounts receivable and inventories. We may not have access to the full \$15,000 revolving line of credit due to the formula using our accounts receivable and inventories, the amount of the letter of credit issued in favor of Whirlpool Corporation and the amount of outstanding loans between PNC and our AAP joint venture. The interest rate on the revolving line of credit is PNC Base Rate plus 1.75%, or 1-, 2- or 3-month PNC LIBOR Rate plus 2.75%. The PNC Base Rate shall mean, for any day, a fluctuating per annum rate of interest equal to the highest of (i) the interest rate per annum announced from time to time by PNC at its prime rate, (ii) the Federal Funds Open Rate plus ½ of 1%, and (iii) the one month LIBOR rate plus 100 basis points (1%).

The \$2,550 term loan is payable as follows, subject to acceleration upon the occurrence of an event of default or termination of the PNC Credit Agreement: one hundred nineteen (119) consecutive monthly principal payments of \$21 plus interest commencing on February 1, 2011 and continuing on the first day of each month thereafter followed by a one hundred twentieth (120th) payment of all unpaid principal, interest and fees. The term loan is collateralized with our California facility located in Compton, California. The term loan bears interest at PNC Base Rate plus 2.25%, or 1-, 2- or 3-month PNC LIBOR Rate plus 3.25%.

In connection with the PNC Credit Agreement, we repaid our existing General Credit and Security Agreement dated August 30, 1996, as amended, with Spectrum Commercial Services and also repaid our existing mortgage with General Electric of \$1,544 that resulted in \$1,006 of additional borrowings under the revolving line of credit. Also in connection with the PNC Credit Agreement, we guaranteed a \$2,100 loan between PNC (previously with Spectrum Commercial Services) and AAP. The guarantee was provided by reducing the availability under the PNC Credit Agreement by \$2,100 until the loan is repaid by AAP. The loan between PNC and AAP was repaid by AAP on March 10, 2011 as described below.

On March 10, 2011, ARCA Advanced Processing, LLC entered into three separate commercial term loans ("Term Loans") with Susquehanna Bank, pursuant to the guidelines of the U.S. Small Business Administration 7(a) Loan Program. The total amount of the Term Loans is \$4,750, split into three separate loans for \$2,100; \$1,400; and \$1,250. AAP intends to use the amount borrowed to repay \$3,780 of short-term debt described in Note 10 and the remaining amount to repay ARCA for loans that are eliminated in the consolidated financial statements and for working capital purposes. The Term Loan matures in ten years and the interest rate is Prime plus 2.75%. The total monthly interest and principal payments are \$54 and begin on July 1, 2011. AAP will pay interest only between March 10, 2011 and June 30, 2011.

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

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

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), at January 1, 2011. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at January 1, 2011, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Controls Over Financial Reporting

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

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

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management concluded that our internal control over financial reporting was effective as of January 1, 2011.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial

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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 1, 2011, 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 2011 Annual Meeting of Shareholders to be held May 12, 2011 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 2011 Annual Meeting of Shareholders to be held May 12, 2011 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 2011 Annual Meeting of Shareholders to be held May 12, 2011 and is incorporated herein by reference.

The following table gives aggregate information under our equity compensation plans as of January 1, 2011:

	(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	552,200	\$ 3.87	66,300

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

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 2011 Annual Meeting of Shareholders to be held May 12, 2011 and is incorporated herein by reference.

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ITEM 14. PRINCIPAL ACCOUNTING 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 2011 Annual Meeting of Shareholders to be held May 12, 2011 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 1, 2011 and January 2, 2010 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, 2011

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 January 3, 2009	\$ 292	\$ 115	\$ 2,187
Additional allowance	69	404	—
Write-offs and adjustments	(320)	—	192
Balance at January 2, 2010	41	519	2,379
Additional allowance	22	—	—
Write-offs and adjustments	(19)	(233)	(635)
Balance at January 1, 2011	\$ 44	\$ 286	\$ 1,744

3. Exhibits

See Index to Exhibits on page 66 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 17, 2011

APPLIANCE RECYCLING CENTERS OF AMERICA, INC. (Registrant)

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

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

capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Edward R. Cameron</u> Edward R. Cameron	Chairman of the Board, President and Chief Executive Officer	March 17, 2011
<u>/s/ Peter P. Hausback</u> Peter P. Hausback	Executive Vice President, Chief Financial Officer and Principal Accounting Officer	March 17, 2011
<u>/s/ Duane S. Carlson</u> Duane S. Carlson	Director	March 17, 2011
<u>/s/ Glynnis A. Jones</u> Glynnis A. Jones	Director	March 17, 2011
<u>/s/ Dean R. Pickerell</u> Dean R. Pickerell	Director	March 17, 2011
<u>/s/ Morgan J. Wolf</u> Morgan J. Wolf	Director	March 17, 2011

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Index to Exhibits

Exhibit No.	Description
3.1	Restated Articles of Incorporation of Appliance Recycling Centers of America, Inc. [filed as Exhibit 3.1 to the Company's Form 10-K for the fiscal year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].
3.2	Bylaws of Appliance Recycling Centers of America, Inc. as amended December 26, 2007 [filed as Exhibit 3.2 to the Company's Form 8-K filed on January 2, 2008 (File No. 0-19621) and incorporated herein by reference].
*10.1	1997 Stock Option Plan and Amendment [filed as Exhibits 28.1 and 28.2 to the Company's Registration Statement on Form S-8 (File No. 333-28571) and incorporated herein by reference].
*10.2	Amendment No. 1 to 1997 Stock Option Plan [filed as Exhibit 28.1 to the Company's Registration Statement on Form S-8 (File No. 333-28571) and incorporated herein by reference].
*10.3	Amendment No. 2 to 1997 Stock Option Plan [filed as Exhibit 28.1 to the Company's Registration Statement on Form S-8 (File No. 333-28571) and incorporated herein by reference].
*10.4	Amendment No. 3 to 1997 Stock Option Plan [filed as Exhibit 28.1 to the Company's Registration Statement on Form S-8 (File No. 333-28571) and incorporated herein by reference].
*10.5	2006 Stock Option Plan [filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-163804) and incorporated herein by reference].
10.6	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].
10.7	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].
10.8	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].
10.9†	Appliance Sales and Recycling Agreement dated October 21, 2009 between General Electric Company and the Company [filed as Exhibit No. 10.38 to the Company's Form 10-K for the year ended January 2, 2010 (File No. 0-19621) and incorporated herein by reference].
10.10	Warrant to Purchase Common Stock of the Company for the Purchase of 248,189 shares of Common Stock in favor of General Electric Company, dated October 21, 2009 [filed as Exhibit No. 10.39 to the Company's Form 10-K for the year ended January 2, 2010 (File No. 0-19621) and incorporated herein by reference].
+10.11	Revolving Credit, Term Loan and Security Agreement dated January 24, 2011 between PNC Bank, National Association and the Company.
+10.12	Term Loan dated January 24, 2011 between PNC Bank, National Association and ARCA Advanced Processing, LLC.
+21.1	Subsidiaries of Appliance Recycling Centers, Inc.
+23.1	Consent of Baker Tilly Virchow Krause, LLP, Independent Registered Public Accounting Firm.

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

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

+ Filed herewith.

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

REVOLVING CREDIT, TERM LOAN

AND

SECURITY AGREEMENT

PNC BANK, NATIONAL ASSOCIATION
(AS LENDER AND AS AGENT)

WITH

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
APPLIANCE RECYCLING CENTERS OF AMERICA-CALIFORNIA, INC.

AND

ARCA CANADA INC.

(collectively, BORROWERS)

January 24, 2011

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REVOLVING CREDIT, TERM LOAN

AND

SECURITY AGREEMENT

Revolving Credit, Term Loan and Security Agreement dated as of January 24, 2011 among **APPLIANCE RECYCLING CENTERS OF AMERICA, INC.**, a corporation organized under the laws of the State of Minnesota ("ARCA"), **APPLIANCE RECYCLING CENTERS OF AMERICA-CALIFORNIA, INC.**, a corporation organized under the laws of the State of California ("ARCA-CA"), **ARCA CANADA INC.**, a corporation organized under the laws of the province of Ontario ("ARCA Canada", together with ARCA, ARCA-CA and each Person joined hereto as a borrower from time to time, collectively, the "Borrowers", and each a "Borrower"), the financial institutions which are now or which hereafter become a party hereto (collectively, the "Lenders" and each individually a "Lender") and **PNC BANK, NATIONAL ASSOCIATION** ("PNC"), as agent for Lenders (PNC, in such capacity, the "Agent").

IN CONSIDERATION of the mutual covenants and undertakings herein contained, Borrowers, Lenders and Agent hereby agree as follows:

I. DEFINITIONS.

1.1. **Accounting Terms.** As used in this Agreement, the Other Documents or any certificate, report or other document made or delivered pursuant to this Agreement, accounting terms not defined in Section 1.2 or elsewhere in this Agreement and accounting terms partly defined in Section 1.2 to the extent not defined, shall have the respective meanings given to them under GAAP; provided, however, whenever such accounting terms are used for the purposes of determining compliance with financial covenants in this Agreement, such accounting terms shall be defined in accordance with GAAP as applied in preparation of the audited financial statements of Borrowers for the fiscal year ended January 2, 2010.

1.2. **General Terms.** For purposes of this Agreement the following terms shall have the following meanings:

"**AAP Joint Venture**" shall mean ARCA Advanced Processing, LLC, a Minnesota limited liability company, which is a joint venture entered into between ARCA and 4301 Operations, LLC.

"**AAP Joint Venture Term Loan**" shall mean the term loan made by PNC to the AAP Joint Venture on the Closing Date in the original principal amount of \$2,100,000 pursuant to the AAP Joint Venture Term Loan Note, including any increases in the principal amount thereof, and all interest, fees, costs and expenses owing to PNC in connection therewith.

"**AAP Joint Venture Term Loan Note**" shall mean the Term Loan Note dated the Closing Date executed by AAP Joint Venture in favor PNC in the original principal amount of \$2,100,000 (as amended, restated, modified or supplemented from time to time).

"**AAP Joint Venture Reserve**" shall mean, as of any date of determination, a reserve in the amount of the outstanding AAP Joint Venture Term Loan as of such date.

"**Accountants**" shall have the meaning set forth in Section 9.7 hereof.

"**Advance Rates**" shall have the meaning set forth in Section 2.1(a)(y)(vi) hereof.

"**Advances**" shall mean and include the Revolving Advances, Letters of Credit and the Term Loan.

"**Affiliate**" of any Person shall mean (a) any Person which, directly or indirectly, is in control of, is controlled by, or is under common control with such Person, or (b) any Person who is a director, manager, member, managing member, general partner or officer (i) of such Person, (ii) of any Subsidiary of such Person or (iii) of any Person described in clause (a) above. For purposes of this definition, control of a Person shall mean the power, direct or indirect, (x) to vote 5% or more of the Equity Interests having ordinary voting power for the election of directors of such Person or other Persons performing similar functions for any

such Person, and (y) to direct or cause the direction of the direction of such Person whether by ownership of Equity Interests, contract or otherwise.

"Aged Inventory Advance Rate" shall have the meaning set forth in Section 2.1(a)(y)(v).

"Agent" shall have the meaning set forth in the preamble to this Agreement and shall include its successors and assigns.

"Agreement" shall mean this Revolving Credit, Term Loan and Security Agreement, as the same may be amended, restated, supplemented or otherwise modified from time to time.

"Alternate Base Rate" shall mean, for any day, a rate per annum equal to the highest of (i) the Base Rate in effect on such day, (ii) the Federal Funds Open Rate in effect on such day plus one half of one-percent (1/2 of 1%), and (iii) the sum of the Daily LIBOR Rate in effect on such day plus one percent (1.0%), so long as a Daily LIBOR Rate is offered, ascertainable and not unlawful.

"Anti-Terrorism Laws" shall mean any Applicable Laws relating to terrorism or money laundering, including Executive Order No. 13224, the USA PATRIOT Act, the Applicable Laws comprising or implementing the Bank Secrecy Act, and the Applicable Laws administered by the United States Treasury Department's Office of Foreign Asset Control, and the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada) (as any of the foregoing Applicable Laws may from time to time be amended, renewed, extended, or replaced).

"Applicable Law" shall mean all laws, rules and regulations applicable to the Person, conduct, transaction, covenant, Other Document or contract in question, including all applicable common law and equitable principles; all provisions of all applicable state, federal and foreign constitutions, statutes, rules, regulations, treaties, directives and orders of any Governmental Body, and all orders, judgments and decrees of all courts and arbitrators.

"Authority" shall have the meaning set forth in Section 4.19(d) hereof.

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"Base Rate" shall mean the base commercial lending rate of PNC as publicly announced to be in effect from time to time, such rate to be adjusted automatically, without notice, on the effective date of any change in such rate. This rate of interest is determined from time to time by PNC as a means of pricing some loans to its customers and is neither tied to any external rate of interest or index nor does it necessarily reflect the lowest rate of interest actually charged by PNC to any particular class or category of customers of PNC.

"Benefited Lender" shall have the meaning set forth in Section 2.20(d) hereof.

"Billed Receivables Advance Rate" shall have the meaning set forth in Section 2.1(a)(y)(i).

"Blocked Accounts" shall have the meaning set forth in Section 4.15(h) hereof.

"Blocked Account Bank" shall have the meaning set forth in Section 4.15(h) hereof.

"Blocked Person" shall have the meaning set forth in Section 5.24(b) hereof.

"Borrower" or "Borrowers" shall have the meaning set forth in the preamble to this Agreement and shall extend to all permitted successors and assigns of such Persons.

"Borrowers on a Consolidated Basis" shall mean the consolidation in accordance with GAAP of the accounts or other items of the Borrowers and their respective Subsidiaries.

"Borrowers' Account" shall have the meaning set forth in Section 2.8 hereof.

"Borrowing Agent" shall mean ARCA.

"Borrowing Base Certificate" shall mean a certificate in substantially the form of Exhibit 1.2 duly executed by the President, Chief Financial Officer or Controller of the Borrowing Agent and delivered to the Agent, appropriately completed, by which such officer shall certify to Agent the Formula Amount and calculation thereof as of the date of such certificate.

"Business Day" shall mean any day other than Saturday or Sunday or a legal holiday on which commercial banks are authorized or required by law to be closed for business in East Brunswick, New Jersey and, if the applicable Business Day relates to any Eurodollar Rate Loans, such day must also be a day on which dealings are carried on in the London interbank market.

"Canadian Borrower" shall mean ARCA-Canada and any other Borrower existing pursuant to the laws of Canada or any province or territory thereof.

"Canadian Dollars" shall mean lawful money of Canada.

"Capital Expenditures" shall mean expenditures made or liabilities incurred for the acquisition of any fixed assets or improvements, replacements, substitutions or additions thereto which have a useful life of more than one year, including the total principal portion of Capitalized Lease Obligations, which, in accordance with GAAP, would be classified as capital expenditures.

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"Capitalized Lease Obligation" shall mean any Indebtedness of any Borrower represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

"CERCLA" shall mean the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. §§9601 et seq.

"Change of Control" shall mean (a) 100% of the Equity Interests of ARCA-CA or ARCA Canada are no longer owned directly or indirectly (on a fully diluted basis) by ARCA; (b) any person or group of persons (within the meaning of Section 13(d) or 14(a) of the Exchange Act) shall have acquired beneficial ownership of (within the meaning of Rule 13d-3 promulgated by the SEC under the Exchange Act) 20% or more of the voting Equity Interests of ARCA, (c) during any period of 12 consecutive months, a majority of the members of the board of directors of ARCA cease to be composed of individuals: (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board, or (iii) whose election or nomination to that board was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board, or (d) any merger or consolidation by, or sale of substantially all of the property or assets of, any Borrower.

"Charges" shall mean all taxes, charges, fees, imposts, levies or other assessments, including all net income, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation and property taxes, custom duties, fees, assessments, liens, claims and charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts, imposed by any taxing or other authority, domestic or foreign (including the Pension Benefit Guaranty Corporation or any environmental agency or superfund), upon the Collateral, any Borrower or any of its Affiliates.

"Closing Date" shall mean January 24, 2011 or such other date as may be agreed to by the parties hereto.

"Code" shall mean the Internal Revenue Code of 1986, as the same may be amended or supplemented from time to time, and any successor statute of similar import, and the rules and regulations thereunder, as from time to time in effect.

"Collateral" shall mean and include:

- (a) all Receivables;
- (b) all Equipment;
- (c) all General Intangibles;
- (d) all Inventory;
- (e) all Investment Property;

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- (f) all Real Property;
 - (g) all Subsidiary Stock;

(h) all of each Borrower's right, title and interest in and to, whether now owned or hereafter acquired and wherever located; (i) its respective goods and other property including, but not limited to, all merchandise returned or rejected by Customers, relating to or securing any of the Receivables; (ii) all of each Borrower's rights as a consignor, a consignee, an unpaid vendor, mechanic, artisan, or other lienor, including stoppage in transit, setoff, detinue, replevin, reclamation and repurchase; (iii) all additional amounts due to any Borrower from any Customer relating to the Receivables; (iv) other property, including warranty claims, relating to any goods securing the Obligations; (v) all of each Borrower's contract rights, rights of payment which have been earned under a contract right, instruments (including promissory notes), documents, chattel paper (including electronic chattel paper), warehouse receipts, deposit accounts, letters of credit and money; (vi) all commercial tort claims (whether now existing or hereafter arising); (vii) if and when obtained by any Borrower, all real and personal property of third parties in which such Borrower has been granted a lien or security interest as security for the payment or enforcement of Receivables; (viii) all letter of credit rights (whether or not the respective letter of credit is evidenced by a writing); (ix) all supporting obligations; and (x) any other goods, personal property or real property now owned or hereafter acquired in which any Borrower has expressly granted a security interest or may in the future grant a security interest to Agent hereunder, or in any amendment or supplement hereto or thereto, or under any other agreement between Agent and any Borrower;

(i) all of each Borrower's ledger sheets, ledger cards, files, correspondence, records, books of account, business papers, computers, computer software (owned by any Borrower or in which it has an interest), computer programs, tapes, disks and documents relating to (a), (b), (c), (d), (e), (f), (g) or (h) of this paragraph; and

(j) all proceeds and products of (a), (b), (c), (d), (e), (f), (g), (h) and (i) in whatever form, including, but not limited to: cash, deposit accounts (whether or not comprised solely of proceeds), certificates of deposit, insurance proceeds (including hazard, flood and credit insurance), negotiable instruments and other instruments for the payment of money, chattel paper, security agreements, documents, eminent domain proceeds, condemnation proceeds and tort claim proceeds.

"Commitment Percentage" of any Lender shall mean the percentage set forth below such Lender's name on the signature page hereof as same may be adjusted upon any assignment by a Lender pursuant to Section 16.3(c) or (d) hereof.

"Commitment Transfer Supplement" shall mean a document in the form of Exhibit 16.3 hereto, properly completed and otherwise in form and substance satisfactory to Agent by which the Purchasing Lender purchases and assumes a portion of the obligation of Lenders to make Advances under this Agreement.

"Compliance Certificate" shall mean a compliance certificate substantially in the form attached hereto as Exhibit 1.2(a) to be signed by the Chief Financial Officer or Controller of

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Borrowing Agent, which shall state that, based on an examination sufficient to permit such officer to make an informed statement, (a) no Default or Event of Default exists, or if such is not the case, specifying such Default or Event of Default, its nature, when it occurred, whether it is continuing and the steps being taken by Borrowers with respect to such default and, such certificate shall have appended thereto calculations which set forth Borrowers' compliance with the requirements or restrictions imposed by Sections 6.5, 7.4, 7.5, 7.6, 7.7, 7.8, 7.10 and 7.11; and (b) that to the best of such officer's knowledge, each Borrower is in compliance in all material respects with all federal, state and local Environmental Laws, or if such is not the case, specifying all areas of non-compliance and the

proposed action such Borrower will implement in order to achieve full compliance.

“Consents” shall mean all filings and all licenses, permits, consents, approvals, authorizations, qualifications and orders of Governmental Bodies and other third parties, domestic or foreign, necessary to carry on any Borrower’s business or necessary (including to avoid a conflict or breach under any agreement, instrument, other document, license, permit or other authorization) for the execution, delivery or performance of this Agreement or the Other Documents, including any Consents required under all applicable federal, state or other Applicable Law.

“Consigned Inventory” shall mean Inventory of any Borrower that is in the possession of another Person on a consignment, sale or return, or other basis that does not constitute a final sale and acceptance of such Inventory.

“Contract Rate” shall have the meaning set forth in Section 3.1 hereof.

“Controlled Group” shall mean, at any time, each Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control and all other entities which, together with any Borrower, are treated as a single employer under Section 414 of the Code.

“Credit Card Receivables” shall mean each “Account” (as defined in the UCC) together with all income, payments and proceeds thereof, owed by a credit or debit card issuer (including, but not limited to, Visa, MasterCard and American Express and such other issuers approved by the Agent) to a Borrower resulting from charges by a Customer of a Borrower on credit or debit cards issued by such issuer in connection with the sale of goods by a Borrower, or services performed by a Borrower, in each case in the Ordinary Course of Business.

“Credit Card Receivables Advance Rate” shall have the meaning set forth in Section 2.1(a)(y)(iii).

“Customer” shall mean and include the account debtor with respect to any Receivable and/or the prospective purchaser of goods, services or both with respect to any contract or contract right, and/or any party who enters into or proposes to enter into any contract or other arrangement with any Borrower, pursuant to which such Borrower is to deliver any personal property or perform any services.

“Customs” shall have the meaning set forth in Section 2.11(b) hereof.

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“Daily LIBOR Rate” shall mean, for any day, the rate per annum determined by the Agent by dividing (x) the Published Rate by (y) a number equal to 1.00 minus the Reserve Percentage.

“Debt Payments” shall mean and include (a) all cash actually expended by any Borrower to make interest payments on any Advances hereunder, plus (b) accrued but unpaid interest on account of Eurodollar Rate Loans, plus (c) scheduled principal payments on the Term Loan, plus (d) all cash actually expended by any Borrower to make payments for all fees, commissions and charges set forth herein and with respect to any Advances, plus (e) all cash actually expended by any Borrower to make payments on Capitalized Lease Obligations, plus (f) all cash actually expended by any Borrower to make payments with respect to any other Indebtedness for borrowed money.

“Default” shall mean an event, circumstance or condition which, with the giving of notice or passage of time or both, would constitute an Event of Default.

“Default Rate” shall have the meaning set forth in Section 3.1 hereof.

“Defaulting Lender” shall have the meaning set forth in Section 2.23(a) hereof.

“Depository Accounts” shall have the meaning set forth in Section 4.15(h) hereof.

“Designated Lender” shall have the meaning set forth in Section 16.2(b) hereof.

“Documents” shall have the meaning set forth in Section 8.1(c) hereof.

“Dollar” and the sign “\$” shall mean lawful money of the United States of America.

“Domestic Rate Loan” shall mean any Advance that bears interest based upon the Alternate Base Rate.

“Drawing Date” shall have the meaning set forth in Section 2.12(b) hereof.

“Early Termination Date” shall have the meaning set forth in Section 13.1 hereof.

“Earnings Before Interest and Taxes” shall mean for any period the sum of (i) net income (or loss) of Borrowers on a Consolidated Basis for such period (excluding extraordinary gains and losses), plus (ii) all interest expense of Borrowers on a Consolidated Basis for such period, plus (iii) all charges against income of Borrowers on a Consolidated Basis for such period for federal, state and local taxes.

“EBITDA” shall mean for any period the sum of (i) Earnings Before Interest and Taxes for such period, plus (ii) depreciation expenses for such period, plus (iii) amortization expenses for such period, plus (iv) any other non-cash charges, including without limitation, any stock or other equity consideration and/or compensation for such period, acceptable to Agent in its reasonable discretion.

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“Eligible Canadian Receivables” shall mean an Eligible Receivable owing to a Borrower from a Customer located in Canada.

“Eligible Credit Card Receivables Amount” shall mean, on any date of determination, an amount equal to Borrowers’ aggregate Credit Card Receivables for the prior month (as reported to Agent in compliance with Section 9.2 hereof), divided by the number of days in such month, and multiplied by two (2); provided however that if Borrowers’ fail to report the prior months’ Credit Card Receivables by the date set forth herein, such amount shall mean an amount determined by Agent.

"Eligible Inventory" shall mean and include Inventory, excluding work in process, with respect to each Borrower, valued at the lower of cost or market value, determined on a first-in-first-out basis, which is not, in Agent's opinion, obsolete, slow moving or unmerchantable and which Agent, in its sole discretion, shall not deem ineligible Inventory, based on such considerations as Agent may from time to time deem appropriate including whether the Inventory is subject to a perfected, first priority security interest in favor of Agent and no other Lien (other than a Permitted Encumbrance). In addition, Inventory shall not be Eligible Inventory if it (i) does not conform to all standards imposed by any Governmental Body which has regulatory authority over such goods or the use or sale thereof, (ii) is in transit, (iii) is located outside the continental United States or at a location that is not otherwise in compliance with this Agreement, (iv) constitutes Consigned Inventory, (v) is the subject of an Intellectual Property Claim; (vi) is subject to a License Agreement or other agreement that limits, conditions or restricts any Borrower's or Agent's right to sell or otherwise dispose of such Inventory, unless Agent is a party to a Licensor/Agent Agreement with the Licensor under such License Agreement; (vii) is situated at a location not owned by a Borrower unless (a) the owner or occupier of such location has executed in favor of Agent a Lien Waiver Agreement, or (b) so long as all lease payment for such location are current, Agent has established a reserve equal to one month's rent for such location or such greater amount as Agent in its reasonable discretion exercised in good faith determines is necessary to protect its interest in the Collateral; (viii) if the sale of such Inventory would result in an ineligible Receivable, or (ix) the Inventory is Whirlpool Inventory.

"Eligible Receivables" shall mean and include with respect to each Borrower, each Receivable of such Borrower arising in the Ordinary Course of Business and which Agent, in its sole credit judgment, shall deem to be an Eligible Receivable, based on such considerations as Agent may from time to time deem appropriate. A Receivable shall not be deemed eligible unless such Receivable is subject to Agent's first priority perfected security interest and no other Lien (other than Permitted Encumbrances), and is evidenced by an invoice or other documentary evidence satisfactory to Agent. In addition, no Receivable shall be an Eligible Receivable if:

- (a) it arises out of a sale made by any Borrower to an Affiliate of any Borrower or to a Person controlled by an Affiliate of any Borrower;
- (b) it is due or unpaid more than sixty (60) days after the due date or ninety (90) days after the original invoice date;

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(c) fifty percent (50%) or more of the Receivables from such Customer are not deemed Eligible Receivables hereunder. Such percentage may, in Agent's sole discretion, be increased or decreased from time to time;

(d) any covenant, representation or warranty contained in this Agreement with respect to such Receivable has been breached;

(e) the Customer shall (i) apply for, suffer, or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property or call a meeting of its creditors, (ii) admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business, (iii) make a general assignment for the benefit of creditors, (iv) commence a voluntary case or proceeding under any state or federal bankruptcy laws (as now or hereafter in effect), (v) be adjudicated a bankrupt or insolvent, (vi) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesce to, or fail to have dismissed, any petition which is filed against it in any involuntary case under such bankruptcy laws, or (viii) take any action for the purpose of effecting any of the foregoing;

(f) the sale is to a Customer outside the continental United States of America or Canada, unless the sale is on letter of credit, guaranty or acceptance terms, in each case acceptable to Agent in its sole discretion;

(g) the sale to the Customer is on a bill-and-hold, guaranteed sale, sale-and-return, sale on approval, consignment or any other repurchase or return basis or is evidenced by chattel paper;

(h) Agent believes, in its sole judgment, that collection of such Receivable is insecure or that such Receivable may not be paid by reason of the Customer's financial inability to pay;

(i) the Customer is the United States of America, any state or any department, agency or instrumentality of any of them, unless the applicable Borrower assigns its right to payment of such Receivable to Agent pursuant to the Assignment of Claims Act of 1940, as amended (31 U.S.C. Sub-Section 3727 et seq. and 41 U.S.C. Sub-Section 15 et seq.) or has otherwise complied with other applicable statutes or ordinances;

(j) the goods giving rise to such Receivable have not been delivered to and accepted by the Customer or the services giving rise to such Receivable have not been performed by the applicable Borrower and accepted by the Customer or the Receivable otherwise does not represent a final sale;

(k) the Receivables of the Customer exceed a credit limit determined by Agent, in its sole discretion, to the extent such Receivable exceeds such limit;

(l) the Receivable is subject to any offset, deduction, defense, dispute, or counterclaim (to the extent of such offset, deduction, defense or counterclaim), the Customer is also a creditor or supplier of a Borrower or the Receivable is contingent in any respect or for any reason;

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(m) the applicable Borrower has made any agreement with any Customer for any deduction therefrom, except for discounts or allowances made in the Ordinary Course of Business for prompt payment, all of which discounts or allowances are reflected in the calculation of the face value of each respective invoice related thereto;

(n) any return, rejection or repossession of the merchandise has occurred or the rendition of services has been disputed;

(o) such Receivable is not payable to a Borrower; or

(p) such Receivable is not otherwise satisfactory to Agent as determined in good faith by Agent in the exercise of its discretion in a reasonable manner.

"Eligible Unbilled Receivables" shall mean Receivables of any Borrower which meet all criteria for Eligible Receivables except that such Borrower has not issued an invoice for such Receivable; provided however that, Borrowers shall have delivered documentation, in form and substance satisfactory to Agent in its

reasonable discretion, relating to such Receivable, Customer and/or goods or services provided. Eligible Unbilled Receivables shall specifically exclude Receivables which are not invoiced by Borrower within thirty (30) days of the performance of the work that is the subject of such Receivable.

"Eligible Whirlpool Inventory" shall mean Whirlpool Inventory of any Borrower which (a) meets all criteria for Eligible Inventory other than clause (ix) thereof, and (b) is subject to a repurchase agreement acceptable in form and substance to Agent in its sole discretion.

"Eligible Whirlpool Aged Inventory" shall mean Whirlpool Inventory of any Borrower which (a) meets all criteria for Eligible Inventory other than clause (x) thereof, (b) is not subject to a repurchase agreement acceptable in form and substance to Agent in its sole discretion, and (c) is aged greater than one (1) year but less than two (2) years.

"Environmental Complaint" shall have the meaning set forth in Section 4.19(d) hereof.

"Environmental Laws" shall mean all federal, Canadian, provincial and local environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances and codes relating to the protection of the environment and/or governing the use, storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances and the rules, regulations, policies, guidelines, interpretations, decisions, orders and directives of federal, state and local governmental agencies and authorities with respect thereto.

"Equipment" shall mean and include as to each Borrower all of such Borrower's goods (other than Inventory) whether now owned or hereafter acquired and wherever located including all equipment, machinery, apparatus, motor vehicles, fittings, furniture, furnishings, fixtures, parts, accessories and all replacements and substitutions therefor or accessions thereto.

"Equity Interests" of any Person shall mean any and all shares, rights to purchase, options, warrants, general, limited or limited liability partnership interests, member interests, participation or other equivalents of or interest in (regardless of how designated) equity of such

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Person, whether voting or nonvoting, including common stock, preferred stock, convertible securities or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the SEC under the Exchange Act).

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time and the rules and regulations promulgated thereunder.

"Eurodollar Rate" shall mean for any Eurodollar Rate Loan for the then current Interest Period relating thereto, the interest rate per annum determined by Agent by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/100th of 1% per annum) (i) the rate which appears on the Bloomberg Page BBAM1 (or on such other substitute Bloomberg page that displays rates at which US dollar deposits are offered by leading banks in the London interbank deposit market), or the rate which is quoted by another source selected by Agent which has been approved by the British Bankers' Association as an authorized information vendor for the purpose of displaying rates at which U.S. dollar deposits are offered by leading banks in the London interbank deposit market (an "Alternate Source"), at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period as the London interbank offered rate for U.S. Dollars for an amount comparable to such Eurodollar Rate Loan and having a borrowing date and a maturity comparable to such Interest Period (or if there shall at any time, for any reason, no longer exist a Bloomberg Page BBAM1 (or any substitute page) or any Alternate Source, a comparable replacement rate determined by Agent at such time (which determination shall be conclusive absent manifest error)), by (ii) a number equal 1.00 minus the Reserve Percentage. The Eurodollar Rate may also be expressed by the following formula:

Average of London interbank offered rates quoted by Bloomberg or appropriate Successor as shown on

Eurodollar Rate = $\frac{\text{Bloomberg Page BBAM1}}{1.00 - \text{Reserve Percentage}}$

The Eurodollar Rate shall be adjusted with respect to any Eurodollar Rate Loan that is outstanding on the effective date of any change in the Reserve Percentage as of such effective date. The Agent shall give prompt notice to the Borrowing Agent of the Eurodollar Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

"Eurodollar Rate Loan" shall mean an Advance at any time that bears interest based on the Eurodollar Rate.

"Event of Default" shall have the meaning set forth in Article X hereof.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Executive Order No. 13224" shall mean the Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

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"Federal Funds Effective Rate" for any day shall mean the rate per annum (based on a year of 360 days and actual days elapsed and rounded upward to the nearest 1/100 of 1%) announced by the Federal Reserve Bank of New York (or any successor) on such day as being the weighted average of the rates on overnight federal funds transactions arranged by federal funds brokers on the previous trading day, as computed and announced by such Federal Reserve Bank (or any successor) in substantially the same manner as such Federal Reserve Bank computes and announces the weighted average it refers to as the "Federal Funds Effective Rate" as of the date of this Agreement; provided, if such Federal Reserve Bank (or its successor) does not announce such rate on any day, the "Federal Funds Effective Rate" for such day shall be the Federal Funds Effective Rate for the last day on which such rate was announced.

"Federal Funds Open Rate" for any day shall mean the rate per annum (based on a year of 360 days and actual days elapsed) which is the daily federal funds open rate as quoted by ICAP North America, Inc. (or any successor) as set forth on the Bloomberg Screen BTMM for that day opposite the caption "OPEN" (or on such other substitute Bloomberg Screen that displays such rate), or as set forth on such other recognized electronic source used for the purpose of displaying such rate as reasonably selected by PNC (an "Alternate Source") (or if such rate for such day does not appear on the Bloomberg Screen BTMM (or any substitute screen) or on any Alternate Source, or if there shall at any time, for any reason, no longer exist a Bloomberg Screen BTMM (or any substitute

screen) or any Alternate Source, a comparable replacement rate determined by the PNC at such time (which determination shall be conclusive absent manifest error); provided however, that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the "open" rate on the immediately preceding Business Day. If and when the Federal Funds Open Rate changes, the rate of interest with respect to any advance to which the Federal Funds Open Rate applies will change automatically without notice to the Borrowers, effective on the date of any such change.

"Fee Letter" shall mean the fee letter dated the Closing Date among Borrowers and PNC.

"Fixed Charge Coverage Ratio" shall mean and include, with respect to any fiscal period, the ratio of (a) EBITDA, minus Unfunded Capital Expenditures made during such period, minus cash distributions (including tax distributions) and cash dividends made during such period (excluding any cash contributions made to AAP during fiscal year 2010 in the amounts set forth on Schedule 1.2(a) hereto), minus cash taxes paid during such period to (b) all Debt Payments made during such period.

"Foreign Subsidiary" of any Person, shall mean any Subsidiary of such Person that is not organized or incorporated in the United States or any State or territory thereof.

"Formula Amount" shall have the meaning set forth in Section 2.1(a) hereof.

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

"General Intangibles" shall mean and include as to each Borrower all of such Borrower's general intangibles, whether now owned or hereafter acquired, including all payment intangibles, all choses in action, causes of action, corporate or other business records, inventions, designs,

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patents, patent applications, equipment formulations, manufacturing procedures, quality control procedures, trademarks, trademark applications, service marks, trade secrets, goodwill, copyrights, design rights, software, computer information, source codes, codes, records and updates, registrations, licenses, franchises, customer lists, tax refunds, tax refund claims, computer programs, all claims under guaranties, security interests or other security held by or granted to such Borrower to secure payment of any of the Receivables by a Customer (other than to the extent covered by Receivables) all rights of indemnification and all other intangible property of every kind and nature (other than Receivables).

"Governmental Acts" shall have the meaning set forth in Section 2.17 hereof.

"Governmental Body" shall mean any nation or government, any state or other political subdivision thereof or any entity, authority, agency, division or department exercising the legislative, judicial, regulatory or administrative functions of or pertaining to a government.

"Guarantor" shall mean any Person who may hereafter guarantee payment or performance of the whole or any part of the Obligations and "Guarantors" means collectively all such Persons.

"Guarantor Security Agreement" shall mean any security agreement executed by any Guarantor in favor of Agent securing the Obligations or the Guaranty of such Guarantor, in form and substance satisfactory to Agent.

"Guaranty" shall mean any guaranty of the Obligations executed by a Guarantor in favor of Agent for its benefit and for the ratable benefit of Lenders, in form and substance satisfactory to Agent.

"Hazardous Discharge" shall have the meaning set forth in Section 4.19(d) hereof.

"Hazardous Substance" shall mean, without limitation, any flammable explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum products, methane, hazardous materials, Hazardous Wastes, hazardous or Toxic Substances or related materials as defined in CERCLA, the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 5101, et seq.), RCRA, or any other applicable Environmental Law and in the regulations adopted pursuant thereto.

"Hazardous Wastes" shall mean all waste materials subject to regulation under CERCLA, RCRA or applicable state law, and any other applicable Federal and state laws or Canadian and provincial laws now in force or hereafter enacted relating to hazardous waste disposal.

"Hedge Liabilities" shall have the meaning provided in the definition of "Lender-Provided Interest Rate Hedge".

"Indebtedness" of a Person at a particular date shall mean all obligations of such Person which in accordance with GAAP would be classified upon a balance sheet as liabilities (except capital stock and surplus earned or otherwise) and in any event, without limitation by reason of enumeration, shall include all indebtedness, debt and other similar monetary obligations of such Person whether direct or guaranteed, and all premiums, if any, due at the required prepayment

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dates of such indebtedness, and all indebtedness secured by a Lien on assets owned by such Person, whether or not such indebtedness actually shall have been created, assumed or incurred by such Person. Any indebtedness of such Person resulting from the acquisition by such Person of any assets subject to any Lien shall be deemed, for the purposes hereof, to be the equivalent of the creation, assumption and incurring of the indebtedness secured thereby, whether or not actually so created, assumed or incurred.

"Ineligible Security" shall mean any security which may not be underwritten or dealt in by member banks of the Federal Reserve System under Section 16 of the Banking Act of 1933 (12 U.S.C. Section 24, Seventh), as amended.

"Intellectual Property" shall mean property constituting under any Applicable Law a patent, patent application, copyright, trademark, service mark, trade name, mask work, trade secret or license or other right to use any of the foregoing.

"Intellectual Property Claim" shall mean the assertion by any Person of a claim (whether asserted in writing, by action, suit or proceeding or otherwise) that any Borrower's ownership, use, marketing, sale or distribution of any Inventory, Equipment, Intellectual Property or other property or asset is violative of any

ownership of or right to use any Intellectual Property of such Person.

"Interest Period" shall mean the period provided for any Eurodollar Rate Loan pursuant to Section 2.2(b) hereof.

"Interest Rate Hedge" shall mean an interest rate exchange, collar, cap, swap, adjustable strike cap, adjustable strike corridor or similar agreements entered into by any Borrower or its Subsidiaries in order to provide protection to, or minimize the impact upon, such Borrower, any Guarantor and/or their respective Subsidiaries of increasing floating rates of interest applicable to Indebtedness.

"Inventory" shall mean and include as to each Borrower all of such Borrower's now owned or hereafter acquired goods, merchandise and other personal property, wherever located, to be furnished under any consignment arrangement, contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in such Borrower's business or used in selling or furnishing such goods, merchandise and other personal property, and all documents of title or other documents representing them.

"Inventory Advance Rate" shall have the meaning set forth in Section 2.1(a)(y)(vi) hereof.

"Investment Property" shall mean and include as to each Borrower, all of such Borrower's now owned or hereafter acquired securities (whether certificated or uncertificated), securities entitlements, securities accounts, commodities contracts and commodities accounts.

"Issuer" shall mean any Person who issues a Letter of Credit and/or accepts a draft pursuant to the terms hereof.

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"Lender" and "Lenders" shall have the meaning ascribed to such term in the preamble to this Agreement and shall include each Person which becomes a transferee, successor or assign of any Lender.

"Lender Default" shall have the meaning set forth in Section 2.23(a) hereof.

"Lender-Provided Interest Rate Hedge" shall mean an Interest Rate Hedge which is provided by any Lender and with respect to which the Agent confirms meets the following requirements: such Interest Rate Hedge (i) is documented in a standard International Swap Dealer Association Agreement, (ii) provides for the method of calculating the reimbursable amount of the provider's credit exposure in a reasonable and customary manner, and (iii) is entered into for hedging (rather than speculative) purposes. The liabilities of any Borrower to the provider of any Lender-Provided Interest Rate Hedge (the "Hedge Liabilities") shall be "Obligations" hereunder, guaranteed obligations under the Guaranty and secured obligations under the Guarantor Security Agreement and otherwise treated as Obligations for purposes of each of the Other Documents. The Liens securing the Hedge Liabilities shall be pari passu with the Liens securing all other Obligations under this Agreement and the Other Documents.

"Letters of Credit" shall have the meaning set forth in Section 2.9 hereof.

"Letter of Credit Application" shall have the meaning set forth in Section 2.10 hereof.

"Letter of Credit Borrowing" shall have the meaning set forth in Section 2.12(d) hereof.

"Letter of Credit Fees" shall have the meaning set forth in Section 3.2 hereof.

"Letter of Credit Sublimit" shall mean \$2,000,000.00.

"License Agreement" shall mean any agreement between any Borrower and a Licensor pursuant to which such Borrower is authorized to use any Intellectual Property in connection with the manufacturing, marketing, sale or other distribution of any Inventory of such Borrower or otherwise in connection with such Borrower's business operations.

"Licensor" shall mean any Person from whom any Borrower obtains the right to use (whether on an exclusive or non-exclusive basis) any Intellectual Property in connection with such Borrower's manufacture, marketing, sale or other distribution of any Inventory or otherwise in connection with such Borrower's business operations.

"Licensor/Agent Agreement" shall mean an agreement between Agent and a Licensor, in form and content satisfactory to Agent, by which Agent is given the unqualified right, vis-a-vis such Licensor, to enforce Agent's Liens with respect to and to dispose of any Borrower's Inventory with the benefit of any Intellectual Property applicable thereto, irrespective of such Borrower's default under any License Agreement with such Licensor.

"Lien" shall mean any mortgage, deed of trust, pledge, hypothecation, assignment, security interest, lien (whether statutory or otherwise), Charge, claim or encumbrance, or preference, priority or other security agreement or preferential arrangement held or asserted in respect of any asset of any kind or nature whatsoever including any conditional sale or other title

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retention agreement, any lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction.

"Lien Waiver Agreement" shall mean an agreement which is executed in favor of Agent by a Person who owns or occupies premises at which any Collateral may be located from time to time and by which such Person shall waive any Lien that such Person may ever have with respect to any of the Collateral and shall contain such other provisions as shall be reasonably acceptable to Agent.

"Material Adverse Effect" shall mean a material adverse effect on (a) the condition (financial or otherwise), results of operations, assets, business, properties or prospects of any Borrower or any Guarantor, (b) any Borrower's ability to duly and punctually pay or perform the Obligations in accordance with the terms thereof, (c) the value of the Collateral, or Agent's Liens on the Collateral or the priority of any such Lien or (d) the practical realization of the benefits of Agent's and each Lender's rights and remedies under this Agreement and the Other Documents.

"Material Contract" shall mean any contract, agreement, instrument, permit, lease or license, written or oral, of Borrowers, which are material to any Borrower's business or which, the failure to comply with, could reasonably be expected to result in a Material Adverse Effect.

"Maximum Face Amount" shall mean, with respect to any outstanding Letter of Credit, the face amount of such Letter of Credit including all automatic increases provided for in such Letter of Credit, whether or not any such automatic increase has become effective.

"Maximum Loan Amount" shall mean \$17,550,000.

"Maximum Revolving Advance Amount" shall mean \$15,000,000 less the AAP Joint Venture Reserve.

"Maximum Undrawn Amount" shall mean with respect to any outstanding Letter of Credit, the amount of such Letter of Credit that is or may become available to be drawn, including all automatic increases provided for in such Letter of Credit, whether or not any such automatic increase has become effective.

"Modified Commitment Transfer Supplement" shall have the meaning set forth in Section 16.3(d) hereof.

"Mortgage" shall mean the mortgage on the Real Property located at 1920 South Acacia Avenue, Compton, California, securing the Obligations together with all extensions, renewals, amendments, supplements, modifications, substitutions and replacements thereto and thereof.

"Multiemployer Plan" shall mean a "multiemployer plan" as defined in Sections 3(37) and 4001(a)(3) of ERISA to which contributions are required by any Borrower or any member of the Controlled Group.

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"Multiple Employer Plan" shall mean a Plan which has two or more contributing sponsors (including any Borrower or any member of the Controlled Group) at least two of whom are not under common control, as such a plan is described in Section 4064 of ERISA.

"Non-Defaulting Lender" shall have the meaning set forth in Section 2.23(b) hereof.

"Non-Whirlpool Inventory Advance Rate" shall have the meaning set forth in Section 2.1(a)(y)(iv).

"Note" shall mean collectively, the Term Note, and the Revolving Credit Note.

"Obligations" shall mean and include (a) any and all loans (including without limitation, all Advances), advances, debts, liabilities, obligations, covenants and duties owing by any Borrower to Lenders or Agent or to any other direct or indirect subsidiary or affiliate of Agent or any Lender of any kind or nature, present or future (including any interest or other amounts accruing thereon, and any costs and expenses of any Person payable by Borrower and any indemnification obligations payable by Borrower arising or payable after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to any Borrower, whether or not a claim for post-filing or post-petition interest or other amounts is allowable or allowed in such proceeding), whether or not evidenced by any note, guaranty or other instrument, whether arising under any agreement, instrument or document, (including this Agreement and the Other Documents) whether or not for the payment of money, whether arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, under any interest or currency swap, future, option or other similar agreement, or in any other manner, whether arising out of overdrafts or deposit or other accounts or electronic funds transfers (whether through automated clearing houses or otherwise) or out of the Agent's or any Lenders non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository transfer check or other similar arrangements, whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, contractual or tortious, liquidated or unliquidated, regardless of how such indebtedness or liabilities arise or by what agreement or instrument they may be evidenced or whether evidenced by any agreement or instrument, including, but not limited to, any and all of any Borrower's Indebtedness and/or liabilities under this Agreement, the Other Documents or under any other agreement between Agent or Lenders and any Borrower and any amendments, extensions, renewals or increases and all costs and expenses of Agent and any Lender incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing, including but not limited to reasonable attorneys' fees and expenses and all obligations of any Borrower to Agent or Lenders to perform acts or refrain from taking any action, and (b) the AAP Joint Venture Term Loan.

"Ordinary Course of Business" shall mean with respect to any Borrower, the ordinary course of such Borrower's business as conducted on the Closing Date.

"Other Documents" shall mean the Mortgage, the Note, the Perfection Certificates, the Fee Letter, any Guaranty, any Guarantor Security Agreement, any Pledge Agreement, any Lender-Provided Interest Rate Hedge, the AAP Joint Venture Term Loan Note and any and all

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other agreements, instruments and documents, including any subordination agreements, intercreditor agreements, guaranties, pledges, powers of attorney, consents, interest or currency swap agreements or other similar agreements and all other writings heretofore, now or hereafter executed by any Borrower or any Guarantor and/or delivered to Agent or any Lender in respect of the transactions contemplated by this Agreement.

"Out-of-Formula Loans" shall have the meaning set forth in Section 16.2(b) hereof.

"Parent" of any Person shall mean a corporation or other entity owning, directly or indirectly at least 50% of the shares of stock or other ownership interests having ordinary voting power to elect a majority of the directors of the Person, or other Persons performing similar functions for any such Person.

"Participant" shall mean each Person who shall be granted the right by any Lender to participate in any of the Advances and who shall have entered into a participation agreement in form and substance satisfactory to such Lender.

"Participation Advance" shall have the meaning set forth in Section 2.12(d) hereof.

"Participation Commitment" shall mean each Lender's obligation to buy a participation of the Letters of Credit issued hereunder.

"Payee" shall have the meaning set forth in Section 3.10 hereof.

"Payment Office" shall mean initially Two Tower Center Boulevard, East Brunswick, New Jersey 08816; thereafter, such other office of Agent, if any, which it may designate by notice to Borrowing Agent and to each Lender to be the Payment Office.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA or any successor.

"Pension Benefit Plan" shall mean at any time any employee pension benefit plan (including a Multiple Employer Plan, but not a Multiemployer Plan) which is covered by Title IV of ERISA or is subject to the minimum funding standards under Section 412 of the Code or is a pension benefit plan within the meaning of the Pension Benefits Act (Ontario) and either (i) is maintained or to which contributions are required by any member of the Controlled Group for employees of any member of the Controlled Group; or (ii) has at any time within the preceding five years been maintained or to which contributions have been required by any entity which was at such time a member of the Controlled Group for employees of any entity which was at such time a member of the Controlled Group.

"Perfection Certificates" shall mean collectively, the Perfection Certificates and the responses thereto provided by each Borrower and delivered to Agent.

"Permitted Encumbrances" shall mean (a) Liens in favor of Agent for the benefit of Agent and Lenders; (b) Liens for taxes, assessments or other governmental charges not delinquent or being Properly Contested; (c) Liens disclosed in the financial statements referred to in Section 5.5, the existence of which Agent has consented to in writing; (d) deposits or pledges

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to secure obligations under worker's compensation, social security or similar laws, or under unemployment insurance; (e) deposits or pledges to secure bids, tenders, contracts (other than contracts for the payment of money), leases, statutory obligations, surety and appeal bonds and other obligations of like nature arising in the Ordinary Course of Business; (f) Liens arising by virtue of the rendition, entry or issuance against any Borrower or any Subsidiary, or any property of any Borrower or any Subsidiary, of any judgment, writ, order, or decree for so long as each such Lien (I) is in existence for less than 20 consecutive days after it first arises or is being Properly Contested and (II) is at all times junior in priority to any Liens in favor of Agent; (g) mechanics', workers', materialmen's or other like Liens arising in the Ordinary Course of Business with respect to obligations which are not due or which are being Properly Contested; (h) Liens placed upon fixed assets hereafter acquired to secure a portion of the purchase price thereof, provided that (I) any such lien shall not encumber any other property of any Borrower and (II) the aggregate amount of Indebtedness secured by such Liens incurred as a result of such purchases during any fiscal year shall not exceed the amount provided for in Section 7.6; (i) easements, rights-of-way, zoning restrictions, minor defects or irregularities in title and other charges or encumbrances, in each case, which do not interfere in any material respect with the Ordinary Course of Business of the Borrowers and their Subsidiaries; (j) any exceptions listed on Schedule B of the title insurance policies delivered to and accepted by, Agent and the Lenders under Section 8.1(r); (k) Liens on machinery and equipment securing the SBA Loan to the extent such Liens are subordinated to the Liens of Agent and subject to an intercreditor agreement in form and substance reasonably satisfactory to Agent; and (l) Liens disclosed on Schedule 1.2 provided that such Liens shall secure only those obligations which they secure on the Closing Date and shall not subsequently apply to any other property or assets of any Borrower other than the property and assets to which they apply as of the Closing Date.

"Person" shall mean any individual, sole proprietorship, partnership, corporation, business trust, joint stock company, trust, unincorporated organization, association, limited liability company, limited liability partnership, institution, public benefit corporation, joint venture, entity or Governmental Body (whether federal, state, county, city, municipal or otherwise, including any instrumentality, division, agency, body or department thereof).

"Plan" shall mean any employee benefit plan within the meaning of Section 3(3) of ERISA or within the meaning of the Pension Benefits Act (Ontario) (including a Pension Benefit Plan and a Multiemployer Plan), maintained for employees of any Borrower or any member of the Controlled Group or any such Plan to which any Borrower or any member of the Controlled Group is required to contribute.

"Pledge Agreement" shall mean (i) that certain Collateral Pledge Agreement executed by ARCA in favor of Agent dated as of the Closing Date, (ii) that certain Negative Pledge Agreements executed by ARCA in favor of Agent dated as of the Closing Date, and (iii) any other pledge agreements executed subsequent to the Closing Date by any other Person to secure the Obligations.

"PNC" shall have the meaning set forth in the preamble to this Agreement and shall extend to all of its successors and assigns.

"Pro Forma Balance Sheet" shall have the meaning set forth in Section 5.5(a) hereof.

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"Pro Forma Financial Statements" shall have the meaning set forth in Section 5.5(b) hereof.

"Properly Contested" shall mean, in the case of any Indebtedness or Lien, as applicable, of any Person (including any taxes) that is not paid as and when due or payable by reason of such Person's bona fide dispute concerning its liability to pay same or concerning the amount thereof: (i) such Indebtedness or Lien, as applicable, is being properly contested in good faith by appropriate proceedings promptly instituted and diligently conducted; (ii) such Person has established appropriate reserves as shall be required in conformity with GAAP; (iii) the non-payment of such Indebtedness will not have a Material Adverse Effect and will not result in the forfeiture of any assets of such Person; (iv) no Lien is imposed upon any of such Person's assets with respect to such Indebtedness unless such Lien is at all times junior and subordinate in priority to the Liens in favor of the Agent (except only with respect to property taxes that have priority as a matter of applicable state law) and enforcement of such Lien is stayed during the period prior to the final resolution or disposition of such dispute; (v) if such Indebtedness or Lien, as applicable, results from, or is determined by the entry, rendition or issuance against a Person or any of its assets of a judgment, writ, order or decree, enforcement of such judgment, writ, order or decree is stayed pending a timely appeal or other judicial review; and (vi) if such contest is abandoned, settled or determined adversely (in whole or in part) to such Person, such Person forthwith pays such Indebtedness and all penalties, interest and other amounts due in connection therewith.

"Projections" shall have the meaning set forth in Section 5.5(b) hereof.

"Published Rate" shall mean the rate of interest published each Business Day in the Wall Street Journal "Money Rates" listing under the caption "London Interbank Offered Rates" for a one month period (or, if no such rate is published therein for any reason, then the Published Rate shall be the Eurodollar Rate for a one month period as published in another comparable publication reasonably selected by the Agent).

"Purchasing CLO" shall have the meaning set forth in Section 16.3(d) hereof.

"Purchasing Lender" shall have the meaning set forth in Section 16.3(c) hereof.

"RCRA" shall mean the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901 et seq., as same may be amended from time to time.

"Real Property" shall mean all of each Borrower's right, title and interest in and to the owned and leased premises identified on Schedule 4.5 hereto or which is hereafter owned or leased by any Borrower.

"Receivables" shall mean and include, as to each Borrower, all of such Borrower's accounts, contract rights, instruments (including those evidencing indebtedness owed to such Borrower by its Affiliates), documents, chattel paper (including electronic chattel paper), general intangibles relating to accounts, drafts and acceptances, credit card receivables and all other forms of obligations owing to such Borrower arising out of or in connection with the sale or lease of Inventory or the rendition of services, all supporting obligations, guarantees and other

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security therefor, whether secured or unsecured, now existing or hereafter created, and whether or not specifically sold or assigned to Agent hereunder.

"Receivables Advance Rate" shall have the meaning set forth in Section 2.1(a)(y)(iii) hereof.

"Register" shall have the meaning set forth in Section 16.3(e) hereof.

"Reimbursement Obligation" shall have the meaning set forth in Section 2.12(b) hereof.

"Release" shall have the meaning set forth in Section 5.7(c)(i) hereof.

"Reportable Event" shall mean a reportable event described in Section 4043(c) of ERISA or the regulations promulgated thereunder.

"Required Lenders" shall mean Lenders holding at least sixty-six and two-thirds percent (66 2/3%) of the Advances and, if no Advances are outstanding, shall mean Lenders holding sixty-six and two-thirds percent (66 2/3%) of the Commitment Percentages; provided, however, if there are fewer than three (3) Lenders, Required Lenders shall mean all Lenders.

"Reserve Percentage" shall mean as of any day the maximum percentage in effect on such day as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as "Eurocurrency Liabilities").

"Revolving Advances" shall mean Advances made other than Letters of Credit and the Term Loan.

"Revolving Credit Note" shall mean, collectively, the promissory notes referred to in Section 2.1(a) hereof.

"Revolving Interest Rate" shall mean, (a) with respect to Domestic Rate Loans, an interest rate per annum equal to the sum of the Alternate Base Rate plus one and three quarters of one percent (1.75%), and (b) with respect to Eurodollar Rate Loans, the sum of the Eurodollar Rate plus two and three quarters of one percent (2.75%).

"SBA Loan" shall have the meaning set forth in Section 6.10 hereof.

"SEC" shall mean the Securities and Exchange Commission or any successor thereto.

"Section 20 Subsidiary" shall mean the Subsidiary of the bank holding company controlling PNC, which Subsidiary has been granted authority by the Federal Reserve Board to underwrite and deal in certain Ineligible Securities.

"Securities Act" shall mean the Securities Act of 1933, as amended.

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"Settlement Date" shall mean the Closing Date and thereafter Wednesday or Thursday of each week or more frequently if Agent deems appropriate unless such day is not a Business Day in which case it shall be the next succeeding Business Day.

"Subordinated Indebtedness" shall mean any Indebtedness incurred by Borrowers subsequent to the Closing Date that is consented to by Agent and subordinated to the Obligations on terms and conditions acceptable to Agent in its sole discretion.

"Subordinated Lender" shall mean any lender with respect to Subordinated Indebtedness.

"Subsidiary" of any Person shall mean a corporation or other entity of whose Equity Interests having ordinary voting power (other than Equity Interests having such power only by reason of the happening of a contingency) to elect a majority of the directors of such corporation, or other Persons performing similar functions for such entity, are owned, directly or indirectly, by such Person.

"Subsidiary Stock" shall mean all of the issued and outstanding Equity Interests of any Subsidiary owned by any Borrower (not to exceed 65% of the Equity Interests of any Foreign Subsidiary).

"Term" shall have the meaning set forth in Section 13.1 hereof.

"Term Loan" shall mean the Advances made pursuant to Section 2.4 hereof.

"Term Loan Rate" shall mean, (a) with respect to Domestic Rate Loans, an interest rate per annum equal to the sum of the Alternate Base Rate plus two

and one quarter of one percent (2.25%), and (b) with respect to Eurodollar Rate Loans, the sum of the Eurodollar Rate plus three and one quarter of one percent (3.25%).

“Term Note” shall mean, collectively, the promissory notes described in Section 2.4 hereof.

“Termination Event” shall mean: (i) a Reportable Event with respect to any Plan; (ii) the withdrawal of any Borrower or any member of the Controlled Group from a Plan during a plan year in which such entity was a “substantial employer” as defined in Section 4001(a)(2) of ERISA; (iii) the providing of notice of intent to terminate a Plan in a distress termination described in Section 4041(c) of ERISA; (iv) the institution by the PBGC of proceedings to terminate a Plan; (v) any event or condition (a) which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or (b) that may result in termination of a Multiemployer Plan pursuant to Section 4041A of ERISA; or (vi) the partial or complete withdrawal within the meaning of Section 4203 or 4205 of ERISA, of any Borrower or any member of the Controlled Group from a Multiemployer Plan.

“Toxic Substance” shall mean and include any material present on the Real Property or the Leasehold Interests which has been shown to have significant adverse effect on human health or which is subject to regulation under the Toxic Substances Control Act (TSCA), 15 U.S.C. §§ 2601 et seq., applicable state law, or any other applicable Federal or state laws or Canadian or provincial laws now in force or hereafter enacted relating to toxic substances. “Toxic

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Substance” includes but is not limited to asbestos, polychlorinated biphenyls (PCBs) and lead-based paints.

“Trading with the Enemy Act” shall mean the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any enabling legislation or executive order relating thereto.

“Transactions” shall have the meaning set forth in Section 5.5 hereof.

“Transferee” shall have the meaning set forth in Section 16.3(d) hereof.

“Unbilled Receivables Advance Rate” shall have the meaning set forth in Section 2.1(a)(y)(ii).

“Undrawn Availability” at a particular date shall mean an amount equal to (a) Borrower’s unrestricted cash on deposit in a U.S. deposit account, plus 60% of Borrower’s unrestricted cash on deposit in a Canadian deposit account, plus the lesser of (i) the Formula Amount or (ii) the Maximum Revolving Advance Amount less the Maximum Undrawn Amount of all outstanding Letters of Credit, minus (b) the sum of (i) the outstanding amount of Advances (other than the Term Loan) plus (ii) all amounts due and owing to any Borrower’s trade creditors which are outstanding sixty (60) days past their due date, plus (iii) fees and expenses for which Borrowers are liable hereunder but which have not been paid or charged to Borrowers’ Account.

“Unfunded Capital Expenditures” shall mean Capital Expenditures made through Revolving Advances or out of Borrowers’ own funds other than through equity contributed subsequent to the Closing Date or purchase money or other financing or lease transactions permitted hereunder.

“Uniform Commercial Code” shall have the meaning set forth in Section 1.3 hereof.

“USA PATRIOT Act” shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

“Week” shall mean the time period commencing with the opening of business on a Wednesday and ending on the end of business the following Tuesday.

“Whirlpool Inventory” shall mean Inventory that is manufactured by Whirlpool or purchased by Borrowers from Whirlpool.

“Whirlpool Inventory Advance Rate” shall have the meaning set forth in Section 2.1(a)(y)(vi).

1.3. Uniform Commercial Code Terms. All terms used herein and defined in the Uniform Commercial Code as adopted in the State of Illinois from time to time (the “Uniform Commercial Code”) shall have the meaning given therein unless otherwise defined herein. Without limiting the foregoing, the terms “accounts”, “chattel paper”, “commercial tort claims”, “instruments”, “general intangibles”, “goods”, “payment intangibles”, “proceeds”, “supporting

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obligations”, “securities”, “investment property”, “documents”, “deposit accounts”, “software”, “letter of credit rights”, “inventory”, “equipment” and “fixtures”, as and when used in the description of Collateral shall have the meanings given to such terms in Articles 8 or 9 of the Uniform Commercial Code. To the extent the definition of any category or type of collateral is expanded by any amendment, modification or revision to the Uniform Commercial Code, such expanded definition will apply automatically as of the date of such amendment, modification or revision. With respect to any Canadian Borrower, any reference to the Uniform Commercial Code shall be deemed to mean the Personal Property Security Act of the relevant province.

1.4. Certain Matters of Construction.

(a) The terms “herein”, “hereof” and “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. All references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement. Any pronoun used shall be deemed to cover all genders. Wherever appropriate in the context, terms used herein in the singular also include the plural and vice versa. All references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations. Unless otherwise provided, all references to any instruments or agreements to which Agent is a party, including references to any of the Other Documents, shall include any and all modifications, supplements or amendments thereto, any and all restatements or replacements thereof and any and all extensions or renewals thereof. All references herein to the time of day shall mean the time in New York, New York. Unless otherwise provided, all financial calculations shall be performed with Inventory valued on a first-in, first-out basis. Whenever the words “including” or “include” shall be used, such words shall be understood to mean “including, without limitation” or “include, without limitation”. A Default or Event of Default shall be deemed to exist at all times during the period commencing on the date that such Default or Event of Default occurs to the date on which such Default or Event of Default is waived in writing pursuant to this Agreement or, in the case of a Default, is cured within any period of cure expressly provided for in this Agreement; and an Event of Default shall “continue” or be “continuing” until such Event of Default has been waived in writing by the Required Lenders or all Lenders, as

applicable. Any Lien created by this Agreement or any of the Other Documents, any payment made by or to or funds received by Agent pursuant to or as contemplated by this Agreement or any of the Other Documents, or any act taken or omitted to be taken by Agent, shall, unless otherwise expressly provided, be created, entered into, made or received, or taken or omitted, for the benefit or account of Agent and Lenders. Wherever the phrase "to the best of Borrowers' knowledge" or words of similar import relating to the knowledge or the awareness of any Borrower are used in this Agreement or Other Documents, such phrase shall mean and refer to (i) the actual knowledge of a senior officer of any Borrower or (ii) the knowledge that a senior officer would have obtained if he had engaged in good faith and diligent performance of his duties, including the making of such reasonably specific inquiries as may be necessary of the employees or agents of such Borrower and a good faith attempt to ascertain the existence or accuracy of the matter to which such phrase relates. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or otherwise within the limitations of, another covenant shall not

avoid the occurrence of a default if such action is taken or condition exists. In addition, all representations and warranties hereunder shall be given independent effect so that if a particular representation or warranty proves to be incorrect or is breached, the fact that another representation or warranty concerning the same or similar subject matter is correct or is not breached will not affect the incorrectness of a breach of a representation or warranty hereunder.

(b) Canadian Terms. In this Agreement, (i) any term defined in this Agreement by reference to the "Uniform Commercial Code" shall also have any extended, alternative or analogous meaning given to such term in applicable Canadian personal property security and other laws (including, without limitation, the Personal Property Security Act (Ontario), the Bills of Exchange Act (Canada) and the Depository Bills and Notes Act (Canada)), in all cases for the extension, preservation or betterment of the security and rights of the Agent, (ii) all references in this Agreement to "Article 8 of the Code" or "Article 8 of the Uniform Commercial Code" shall be deemed to refer also to applicable Canadian securities transfer laws (including, without limitation, the Securities Transfer Act, 2006 (Ontario)), (iii) all references in this Agreement to the United States Copyright Office or the United States Patent and Trademark Office shall be deemed to refer also to the Canadian Intellectual Property Office, (iv) all references in this Agreement to a financing statement, continuation statement, amendment or termination statement shall be deemed to refer also to the analogous documents used under applicable Canadian personal property security laws, (v) all references to the United States of America, or to any subdivision, department, agency or instrumentality thereof shall be deemed to refer also to Canada, or to any subdivision, department, agency or instrumentality thereof, (vi) all references to federal or state securities law of the United States shall be deemed to refer also to analogous federal and provincial securities laws in Canada, (vii) all references to "state or federal bankruptcy laws" shall be deemed to refer also to any insolvency proceeding occurring in Canada or under Canadian law, and (viii) all calculations of Dollar amounts which utilize amounts expressed in Canadian Dollars shall be made using the US Dollar Equivalent of such Canadian Dollar amounts in a manner reasonably calculated by the Agent.

II. ADVANCES, PAYMENTS.

2.1. Revolving Advances.

(a) Amount of Revolving Advances. Subject to the terms and conditions set forth in this Agreement including Sections 2.1(b), (c), (d) and (e), each Lender, severally and not jointly, will make Revolving Advances to Borrowers in aggregate amounts outstanding at any time equal to such Lender's Commitment Percentage of the lesser of (x) the Maximum Revolving Advance Amount less the aggregate Maximum Undrawn Amount of all outstanding Letters of Credit or (y) an amount equal to the sum of:

(i) up to 85%, subject to the provisions of Sections 2.1(b) and (c) hereof (the "Billed Receivables Advance Rate"), of Eligible Receivables, plus

(ii) up to 80%, subject to the provisions of Sections 2.1(b) and (c) hereof (the "Unbilled Receivables Advance Rate"), of Eligible Unbilled Receivables, plus

(iii) up to 85%, subject to the provisions of Sections 2.1(b), (c) and (d) hereof (the "Credit Card Receivables Rate", together with the "Billed Receivables Advance Rate" and the "Unbilled Receivables Advance Rate", the "Receivables Advance Rates") of the Eligible Credit Card Receivable Amount, plus

(iv) up to 50%, subject to the provisions of Sections 2.1(b) and (e) hereof, of the cost of the Eligible Inventory aged less than one (1) year (the "Non-Whirlpool Inventory Advance Rate"), plus

(v) up to 85%, subject to the provisions of Sections 2.1(b) and (e) hereof (the "Aged Inventory Advance Rate"), of the appraised net orderly liquidation value of all Eligible Inventory aged greater than one (1) year but less than two (2) years and Eligible Whirlpool Aged Inventory (as evidenced by an Inventory appraisal satisfactory to Agent in its sole discretion exercised in good faith), plus

(vi) up to 80%, subject to the provisions of Sections 2.1(b) and (e) hereof (the "Whirlpool Inventory Advance Rate", together with the Non-Whirlpool Inventory Advance Rate and Aged Inventory Advance Rate, the "Inventory Advance Rates", and together with the Receivables Advance Rates, the "Advance Rates"), of the cost of Eligible Whirlpool Inventory, minus

(vii) the aggregate Maximum Undrawn Amount of all outstanding Letters of Credit, minus

(viii) the AAP Joint Venture Reserve, minus

(ix) such reserves as Agent may reasonably deem proper and necessary from time to time.

The amount derived from the sum of (x) Sections 2.1(a)(y)(i), (ii), (iii), (iv), (v) and (vi) minus (y) Sections 2.1(a)(y)(vii), (viii) and (ix) at any time and from time to time shall be referred to as the "Formula Amount". The Revolving Advances shall be evidenced by one or more secured promissory notes (collectively, the "Revolving Credit Note") substantially in the form attached hereto as Exhibit 2.1(a).

(b) Discretionary Rights. The Advance Rates may be increased or decreased by Agent at any time and from time to time in the exercise of its reasonable discretion. Each Borrower consents to any such increases or decreases and acknowledges that decreasing the Advance Rates or increasing or

imposing reserves may limit or restrict Advances requested by Borrowing Agent. The rights of Agent under this subsection are subject to the provisions of Section 16.2(b).

(c) Sublimit for Revolving Advances made against Eligible Canadian Receivables. The aggregate amount of Revolving Advances made to Borrowers against Eligible Canadian Receivables shall not exceed in the aggregate, at any time outstanding, \$1,500,000.

(d) Sublimit for Revolving Advances made against Eligible Credit Card Receivables Amount. The aggregate amount of Revolving Advances made to Borrowers against

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the Eligible Credit Card Receivables Amount shall not exceed in the aggregate, at any time outstanding, \$500,000.

(e) Sublimit for Revolving Advances made against Eligible Inventory, Eligible Whirlpool Inventory and Eligible Whirlpool Aged Inventory. The aggregate amount of Revolving Advances made to Borrowers against Eligible Inventory, Eligible Whirlpool Inventory and Eligible Whirlpool Aged Inventory (a) shall not exceed in the aggregate, at any time outstanding, \$14,000,000, or (b) 90% of the appraised net orderly liquidation value of all Inventory (as evidenced by an Inventory appraisal satisfactory to Agent in its sole discretion exercised in good faith).

2.2. Procedure for Revolving Advances Borrowing.

(a) Borrowing Agent on behalf of any Borrower may notify Agent prior to 10:00 a.m. on a Business Day of a Borrower's request to incur, on that day, a Revolving Advance hereunder. Should any amount required to be paid as interest hereunder, or as fees or other charges under this Agreement or any other agreement with Agent or Lenders, or with respect to any other Obligation become due, including without limitation the AAP Joint Venture Term Loan, same shall be deemed a request for a Revolving Advance maintained as a Domestic Rate Loan as of the date such payment is due, in the amount required to pay in full such interest, fee, charge or Obligation under this Agreement or any other agreement with Agent or Lenders, and such request shall be irrevocable.

(b) Notwithstanding the provisions of subsection (a) above, in the event any Borrower desires to obtain a Eurodollar Rate Loan, Borrowing Agent shall give Agent written notice by no later than 10:00 a.m. on the day which is three (3) Business Days prior to the date such Eurodollar Rate Loan is to be borrowed, specifying (i) the date of the proposed borrowing (which shall be a Business Day), (ii) the type of borrowing and the amount on the date of such Advance to be borrowed, which amount shall be in a minimum amount of \$1,000,000 and in integral multiples of \$100,000 thereafter, and (iii) the duration of the first Interest Period therefor. Interest Periods for Eurodollar Rate Loans shall be for one, two or three months; provided, if an Interest Period would end on a day that is not a Business Day, it shall end on the next succeeding Business Day unless such day falls in the next succeeding calendar month in which case the Interest Period shall end on the next preceding Business Day. No Eurodollar Rate Loan shall be made available to any Borrower during the continuance of a Default or an Event of Default. After giving effect to each requested Eurodollar Rate Loan, including those which are converted from a Domestic Rate Loan under Section 2.2(d), there shall not be outstanding more than four (4) Eurodollar Rate Loans, in the aggregate.

(c) Each Interest Period of a Eurodollar Rate Loan shall commence on the date such Eurodollar Rate Loan is made and shall end on such date as Borrowing Agent may elect as set forth in subsection (b)(iii) above provided that the exact length of each Interest Period shall be determined in accordance with the practice of the interbank market for offshore Dollar deposits and no Interest Period shall end after the last day of the Term.

Borrowing Agent shall elect the initial Interest Period applicable to a Eurodollar Rate Loan by its notice of borrowing given to Agent pursuant to Section 2.2(b) or by its notice of

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conversion given to Agent pursuant to Section 2.2(d), as the case may be. Borrowing Agent shall elect the duration of each succeeding Interest Period by giving irrevocable written notice to Agent of such duration not later than 10:00 a.m. on the day which is three (3) Business Days prior to the last day of the then current Interest Period applicable to such Eurodollar Rate Loan. If Agent does not receive timely notice of the Interest Period elected by Borrowing Agent, Borrowing Agent shall be deemed to have elected to convert to a Domestic Rate Loan subject to Section 2.2(d) hereinbelow.

(d) Provided that no Event of Default shall have occurred and be continuing, Borrowing Agent may, on the last Business Day of the then current Interest Period applicable to any outstanding Eurodollar Rate Loan, or on any Business Day with respect to Domestic Rate Loans, convert any such loan into a loan of another type in the same aggregate principal amount provided that any conversion of a Eurodollar Rate Loan shall be made only on the last Business Day of the then current Interest Period applicable to such Eurodollar Rate Loan. If Borrowing Agent desires to convert a loan, Borrowing Agent shall give Agent written notice by no later than 10:00 a.m. (i) on the day which is three (3) Business Days' prior to the date on which such conversion is to occur with respect to a conversion from a Domestic Rate Loan to a Eurodollar Rate Loan, or (ii) on the day which is one (1) Business Day prior to the date on which such conversion is to occur with respect to a conversion from a Eurodollar Rate Loan to a Domestic Rate Loan, specifying, in each case, the date of such conversion, the loans to be converted and if the conversion is from a Domestic Rate Loan to any other type of loan, the duration of the first Interest Period therefor.

(e) At its option and upon written notice given prior to 10:00 a.m. at least three (3) Business Days' prior to the date of such prepayment, any Borrower may prepay the Eurodollar Rate Loans in whole at any time or in part from time to time with accrued interest on the principal being prepaid to the date of such repayment. Such Borrower shall specify the date of prepayment of Advances which are Eurodollar Rate Loans and the amount of such prepayment. In the event that any prepayment of a Eurodollar Rate Loan is required or permitted on a date other than the last Business Day of the then current Interest Period with respect thereto, such Borrower shall indemnify Agent and Lenders therefor in accordance with Section 2.2(f) hereof.

(f) Each Borrower shall indemnify Agent and Lenders and hold Agent and Lenders harmless from and against any and all losses or expenses that Agent and Lenders may sustain or incur as a consequence of any prepayment, conversion of or any default by any Borrower in the payment of the principal of or interest on any Eurodollar Rate Loan or failure by any Borrower to complete a borrowing of, a prepayment of or conversion of or to a Eurodollar Rate Loan after notice thereof has been given, including, but not limited to, any interest payable by Agent or Lenders to lenders of funds obtained by it in order to make or maintain its Eurodollar Rate Loans hereunder. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Agent or any Lender to Borrowing Agent shall be conclusive absent manifest error.

(g) Notwithstanding any other provision hereof, if any Applicable Law, treaty, regulation or directive, or any change therein or in the interpretation or application thereof, shall make it unlawful for any Lender (for purposes of this subsection (g), the term "Lender" shall

include any Lender and the office or branch where any Lender or any corporation or bank controlling such Lender makes or maintains any Eurodollar Rate Loans) to make or maintain its Eurodollar Rate Loans, the obligation of Lenders to make Eurodollar Rate Loans hereunder shall forthwith be cancelled and Borrowers shall, if any affected Eurodollar Rate Loans are then outstanding, promptly upon request from Agent, either pay all such affected Eurodollar Rate Loans or convert such affected Eurodollar Rate Loans into loans of another type. If any such payment or conversion of any Eurodollar Rate Loan is made on a day that is not the last day of the Interest Period applicable to such Eurodollar Rate Loan, Borrowers shall pay Agent, upon Agent's request, such amount or amounts as may be necessary to compensate Lenders for any loss or expense sustained or incurred by Lenders in respect of such Eurodollar Rate Loan as a result of such payment or conversion, including (but not limited to) any interest or other amounts payable by Lenders to lenders of funds obtained by Lenders in order to make or maintain such Eurodollar Rate Loan. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Lenders to Borrowing Agent shall be conclusive absent manifest error.

2.3. Disbursement of Advance Proceeds. All Advances shall be disbursed from whichever office or other place Agent may designate from time to time and, together with any and all other Obligations of Borrowers to Agent or Lenders, shall be charged to Borrowers' Account on Agent's books. In no event, however, shall Agent disburse Advances other than to an account located in the United States of America. During the Term, Borrowers may use the Revolving Advances by borrowing, prepaying and reborrowing, all in accordance with the terms and conditions hereof. The proceeds of each Revolving Advance requested by Borrowing Agent on behalf of any Borrower or deemed to have been requested by any Borrower under Section 2.2 hereof shall, with respect to requested Revolving Advances to the extent Lenders make such Revolving Advances, be made available to the applicable Borrower on the day so requested by way of credit to such Borrower's operating account at PNC, or such other bank as Borrowing Agent may designate following notification to Agent, in immediately available federal funds or other immediately available funds or, with respect to Revolving Advances deemed to have been requested by any Borrower, be disbursed to Agent to be applied to the outstanding Obligations giving rise to such deemed request.

2.4. Term Loan. Subject to the terms and conditions of this Agreement, each Lender, severally and not jointly, will make a Term Loan to Borrowers in the sum equal to such Lender's Commitment Percentage of \$2,550,000. The Term Loan shall be advanced on the Closing Date and shall be, with respect to principal, payable as follows, subject to acceleration upon the occurrence of an Event of Default under this Agreement or termination of this Agreement: one hundred nineteen (119) consecutive monthly installments each in the amount of Twenty Five Thousand Dollars (\$21,250.00) commencing February 1, 2011 and continuing on the first day of each month thereafter followed by a one hundred twentieth (120th) payment of all unpaid principal, accrued and unpaid interest and all unpaid fees and expenses. The Term Loan shall be evidenced by one or more secured promissory notes (collectively, the "Term Note") in substantially the form attached hereto as Exhibit 2.4. The Term Loan may consist of Domestic Rate Loans or Eurodollar Rate Loans, or a combination thereof, as Borrowing Agent may request. In the event that Borrowers desire to obtain or extend a Eurodollar Rate Loan or to convert a Domestic Rate Loan to a Eurodollar Rate Loan, Borrowing Agent shall comply with

the notification requirements set forth in Sections 2.2(b) and (d) and the provisions of Sections 2.2(b) through (g) shall apply.

2.5. Maximum Advances. The aggregate balance of Revolving Advances outstanding at any time shall not exceed the lesser of (a) the Maximum Revolving Advance Amount less the Maximum Undrawn Amount of all issued and outstanding Letters of Credit or (b) the Formula Amount.

2.6. Repayment of Advances.

(a) The Revolving Advances shall be due and payable in full on the last day of the Term subject to earlier prepayment as herein provided. The Term Loan shall be due and payable as provided in Section 2.4 hereof and in the Term Note, subject to mandatory prepayments as herein provided.

(b) Each Borrower recognizes that the amounts evidenced by checks, notes, drafts or any other items of payment relating to and/or proceeds of Collateral may not be collectible by Agent on the date received. In consideration of Agent's agreement to conditionally credit Borrowers' Account as of the next Business Day following Agent's receipt of those items of payment, each Borrower agrees that, in computing the charges under this Agreement, all items of payment shall be deemed applied by Agent on account of the Obligations one (1) Business Day after (i) the Business Day following Agent's receipt of such payments via wire transfer or electronic depository check or (ii) in the case of payments received by Agent in any other form, the Business Day such payment constitutes good funds in Agent's account. Agent is not, however, required to credit Borrowers' Account for the amount of any item of payment which is unsatisfactory to Agent and Agent may charge Borrowers' Account for the amount of any item of payment which is returned to Agent unpaid.

(c) All payments of principal, interest and other amounts payable hereunder, or under any of the Other Documents shall be made to Agent at the Payment Office not later than 1:00 P.M. on the due date therefor in lawful money of the United States of America in federal funds or other funds immediately available to Agent. Agent shall have the right to effectuate payment on any and all Obligations due and owing hereunder by charging Borrowers' Account or by making Advances as provided in Section 2.2 hereof.

(d) Borrowers shall pay principal, interest, and all other amounts payable hereunder, or under any related agreement, without any deduction whatsoever, including, but not limited to, any deduction for any setoff or counterclaim.

2.7. Repayment of Excess Advances. The aggregate balance of Advances outstanding at any time in excess of the maximum amount of Advances permitted hereunder shall be immediately due and payable without the necessity of any demand, at the Payment Office, whether or not a Default or Event of Default has occurred.

2.8. Statement of Account. Agent shall maintain, in accordance with its customary procedures, a loan account ("Borrowers' Account") in the name of Borrowers in which shall be recorded the date and amount of each Advance made by Agent and the date and amount of each payment in respect thereof; provided, however, the failure by Agent to record the date and

amount of any Advance shall not adversely affect Agent or any Lender. Each month, Agent shall send to Borrowing Agent a statement showing the accounting for the Advances made, payments made or credited in respect thereof, and other transactions between Agent and Borrowers during such month. The monthly statements shall be deemed correct and binding upon Borrowers in the absence of manifest error and shall constitute an account stated between Lenders and

Borrowers unless Agent receives a written statement of Borrowers' specific exceptions thereto within thirty (30) days after such statement is received by Borrowing Agent. The records of Agent with respect to the loan account shall be conclusive evidence absent manifest error of the amounts of Advances and other charges thereto and of payments applicable thereto.

2.9. Letters of Credit. Subject to the terms and conditions hereof, Agent shall issue or cause the issuance of standby and/or trade letters of credit ("Letters of Credit") for the account of any Borrower except to the extent that the issuance thereof would then cause the sum of (i) the outstanding Revolving Advances plus (ii) the Maximum Undrawn Amount of all outstanding Letters of Credit to exceed the lesser of (x) the Maximum Revolving Advance Amount or (y) the sum of the Formula Amount plus the Maximum Undrawn Amount of all outstanding Letters of Credit. The Maximum Undrawn Amount of outstanding Letters of Credit shall not exceed in the aggregate at any time the Letter of Credit Sublimit. All disbursements or payments related to Letters of Credit shall be deemed to be Domestic Rate Loans consisting of Revolving Advances and shall bear interest at the Revolving Interest Rate for Domestic Rate Loans; Letters of Credit that have not been drawn upon shall not bear interest.

2.10. Issuance of Letters of Credit.

(a) Borrowing Agent, on behalf of Borrowers, may request Agent to issue or cause the issuance of a Letter of Credit by delivering to Agent at the Payment Office, prior to 10:00 a.m., at least five (5) Business Days' prior to the proposed date of issuance, Agent's form of Letter of Credit Application (the "Letter of Credit Application") completed to the satisfaction of Agent; and, such other certificates, documents and other papers and information as Agent may reasonably request. Borrowing Agent, on behalf of Borrowers, also has the right to give instructions and make agreements with respect to any application, any applicable letter of credit and security agreement, any applicable letter of credit reimbursement agreement and/or any other applicable agreement, any letter of credit and the disposition of documents, disposition of any unutilized funds, and to agree with Agent upon any amendment, extension or renewal of any Letter of Credit.

(b) Each Letter of Credit shall, among other things, (i) provide for the payment of sight drafts, other written demands for payment, or acceptances of usance drafts when presented for honor thereunder in accordance with the terms thereof and when accompanied by the documents described therein and (ii) have an expiry date not later than twelve (12) months after such Letter of Credit's date of issuance and in no event later than the last day of the Term. Each standby Letter of Credit shall be subject either to the Uniform Customs and Practice for Documentary Credits as most recently published by the International Chamber of Commerce at the time a Letter of Credit is issued (the "UCP") or the International Standby Practices (ISP98-International Chamber of Commerce Publication Number 590) (the

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"ISP98 Rules"), and any subsequent revision thereof at the time a standby Letter of Credit is issued, as determined by Agent, and each trade Letter of Credit shall be subject to the UCP.

(c) Agent shall use its reasonable efforts to notify Lenders of the request by Borrowing Agent for a Letter of Credit hereunder.

2.11. Requirements For Issuance of Letters of Credit.

(a) Borrowing Agent shall authorize and direct any Issuer to name the applicable Borrower as the "Applicant" or "Account Party" of each Letter of Credit. If Agent is not the Issuer of any Letter of Credit, Borrowing Agent shall authorize and direct the Issuer to deliver to Agent all instruments, documents, and other writings and property received by the Issuer pursuant to the Letter of Credit and to accept and rely upon Agent's instructions and agreements with respect to all matters arising in connection with the Letter of Credit, the application therefor or any acceptance thereof.

(b) In connection with all Letters of Credit issued or caused to be issued by Agent under this Agreement, each Borrower hereby appoints Agent, or its designee, as its attorney, with full power and authority if an Event of Default shall have occurred, (i) to sign and/or endorse such Borrower's name upon any warehouse or other receipts, letter of credit applications and acceptances, (ii) to sign such Borrower's name on bills of lading; (iii) to clear Inventory through the United States of America Customs Department ("Customs") in the name of such Borrower or Agent or Agent's designee, and to sign and deliver to Customs officials powers of attorney in the name of such Borrower for such purpose; and (iv) to complete in such Borrower's name or Agent's, or in the name of Agent's designee, any order, sale or transaction, obtain the necessary documents in connection therewith, and collect the proceeds thereof. Neither Agent nor its attorneys will be liable for any acts or omissions nor for any error of judgment or mistakes of fact or law, except for Agent's or its attorney's willful misconduct. This power, being coupled with an interest, is irrevocable as long as any Letters of Credit remain outstanding.

2.12. Disbursements, Reimbursement.

(a) Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from Agent a participation in such Letter of Credit and each drawing thereunder in an amount equal to such Lender's Commitment Percentage of the Maximum Face Amount of such Letter of Credit and the amount of such drawing, respectively.

(b) In the event of any request for a drawing under a Letter of Credit by the beneficiary or transferee thereof, Agent will promptly notify Borrowing Agent. Provided that Borrowing Agent shall have received such notice, the Borrowers shall reimburse (such obligation to reimburse Agent shall sometimes be referred to as a "Reimbursement Obligation") Agent prior to 12:00 Noon on each date that an amount is paid by Agent under any Letter of Credit (each such date, a "Drawing Date") in an amount equal to the amount so paid by Agent. In the event Borrowers fail to reimburse Agent for the full amount of any drawing under any Letter of Credit by 12:00 Noon on the Drawing Date, Agent will promptly notify each Lender

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thereof, and Borrowers shall be deemed to have requested that a Revolving Advance maintained as a Domestic Rate Loan be made by the Lenders to be disbursed on the Drawing Date under such Letter of Credit, subject to the amount of the unutilized portion of the lesser of (i) the Maximum Revolving Advance Amount, less the Maximum Undrawn Amount of all outstanding Letters of Credit, or (ii) the Formula Amount and, in each case, subject to Section 8.2 hereof. Any notice given by Agent pursuant to this Section 2.12(b) may be oral if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(c) Each Lender shall upon any notice pursuant to Section 2.12(b) make available to Agent an amount in immediately available funds equal to its Commitment Percentage of the amount of the drawing, whereupon the participating Lenders shall (subject to Section 2.12(d)) each be deemed to have made a Revolving Advance maintained as a Domestic Rate Loan to Borrowers in that amount. If any Lender so notified fails to make available to Agent the

amount of such Lender's Commitment Percentage of such amount by no later than 2:00 p.m., New York time on the Drawing Date, then interest shall accrue on such Lender's obligation to make such payment, from the Drawing Date to the date on which such Lender makes such payment (i) at a rate per annum equal to the Federal Funds Effective Rate during the first three days following the Drawing Date and (ii) at a rate per annum equal to the rate applicable to Revolving Advances maintained as a Domestic Rate Loans on and after the fourth day following the Drawing Date. Agent will promptly give notice of the occurrence of the Drawing Date, but failure of Agent to give any such notice on the Drawing Date or in sufficient time to enable any Lender to effect such payment on such date shall not relieve such Lender from its obligation under this Section 2.12(c), provided that such Lender shall not be obligated to pay interest as provided in Section 2.12(c) (i) and (ii) until and commencing from the date of receipt of notice from Agent of a drawing.

(d) With respect to any unreimbursed drawing that is not converted into a Revolving Advance maintained as a Domestic Rate Loan to Borrowers in whole or in part as contemplated by Section 2.12(b), because of Borrowers' failure to satisfy the conditions set forth in Section 8.2 hereof (other than any notice requirements) or for any other reason, Borrowers shall be deemed to have incurred from Agent a borrowing (each a "Letter of Credit Borrowing") in the amount of such drawing. Such Letter of Credit Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the rate per annum applicable to a Revolving Advance maintained as a Domestic Rate Loan. Each Lender's payment to Agent pursuant to Section 2.12(c) shall be deemed to be a payment in respect of its participation in such Letter of Credit Borrowing and shall constitute a "Participation Advance" from such Lender in satisfaction of its Participation Commitment under this Section 2.12.

(e) Each Lender's Participation Commitment shall continue until the last to occur of any of the following events: (x) Agent ceases to be obligated to issue or cause to be issued Letters of Credit hereunder; (y) no Letter of Credit issued or created hereunder remains outstanding and uncanceled; and (z) all Persons (other than the Borrowers) have been fully reimbursed for all payments made under or relating to Letters of Credit.

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2.13. Repayment of Participation Advances.

(a) Upon (and only upon) receipt by Agent for its account of immediately available funds from Borrowers (i) in reimbursement of any payment made by the Agent under the Letter of Credit with respect to which any Lender has made a Participation Advance to Agent, or (ii) in payment of interest on such a payment made by Agent under such a Letter of Credit, Agent will pay to each Lender, in the same funds as those received by Agent, the amount of such Lender's Commitment Percentage of such funds, except Agent shall retain the amount of the Commitment Percentage of such funds of any Lender that did not make a Participation Advance in respect of such payment by Agent.

(b) If Agent is required at any time to return to any Borrower, or to a trustee, receiver, liquidator, custodian, or any official in any insolvency proceeding, any portion of the payments made by Borrowers to Agent pursuant to Section 2.13(a) in reimbursement of a payment made under the Letter of Credit or interest or fee thereon, each Lender shall, on demand of Agent, forthwith return to Agent the amount of its Commitment Percentage of any amounts so returned by Agent plus interest at the Federal Funds Effective Rate.

2.14. Documentation. Each Borrower agrees to be bound by the terms of the Letter of Credit Application and by Agent's reasonable interpretations of any Letter of Credit issued on behalf of such Borrower and by Agent's written regulations and customary practices relating to letters of credit, though Agent's interpretations may be different from such Borrower's own. In the event of a conflict between the Letter of Credit Application and this Agreement, this Agreement shall govern. It is understood and agreed that, except in the case of gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final non-appealable judgment), Agent shall not be liable for any error, negligence and/or mistakes, whether of omission or commission, in following the Borrowing Agent's or any Borrower's instructions or those contained in the Letters of Credit or any modifications, amendments or supplements thereto.

2.15. Determination to Honor Drawing Request. In determining whether to honor any request for drawing under any Letter of Credit by the beneficiary thereof, Agent shall be responsible only to determine that the documents and certificates required to be delivered under such Letter of Credit have been delivered and that they comply on their face with the requirements of such Letter of Credit and that any other drawing condition appearing on the face of such Letter of Credit has been satisfied in the manner so set forth.

2.16. Nature of Participation and Reimbursement Obligations. Each Lender's obligation in accordance with this Agreement to make the Revolving Advances or Participation Advances as a result of a drawing under a Letter of Credit, and the obligations of Borrowers to reimburse Agent upon a draw under a Letter of Credit, shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Section 2.16 under all circumstances, including the following circumstances:

(i) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against Agent, any Borrower or any other Person for any reason whatsoever;

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(ii) the failure of any Borrower or any other Person to comply, in connection with a Letter of Credit Borrowing, with the conditions set forth in this Agreement for the making of a Revolving Advance, it being acknowledged that such conditions are not required for the making of a Letter of Credit Borrowing and the obligation of the Lenders to make Participation Advances under Section 2.12;

(iii) any lack of validity or enforceability of any Letter of Credit;

(iv) any claim of breach of warranty that might be made by Borrower or any Lender against the beneficiary of a Letter of Credit, or the existence of any claim, set-off, recoupment, counterclaim, cross-claim, defense or other right which any Borrower or any Lender may have at any time against a beneficiary, any successor beneficiary or any transferee of any Letter of Credit or the proceeds thereof (or any Persons for whom any such transferee may be acting), Agent or any Lender or any other Person, whether in connection with this Agreement, the transactions contemplated herein or any unrelated transaction (including any underlying transaction between any Borrower or any Subsidiaries of such Borrower and the beneficiary for which any Letter of Credit was procured);

(v) the lack of power or authority of any signer of (or any defect in or forgery of any signature or endorsement on) or the form of or lack of validity, sufficiency, accuracy, enforceability or genuineness of any draft, demand, instrument, certificate or other document presented under or in connection with any Letter of Credit, or any fraud or alleged fraud in connection with any Letter of Credit, or the transport of any property or provisions of services relating to a Letter of Credit, in each case even if Agent or any of Agent's Affiliates has been notified thereof;

(vi) payment by Agent under any Letter of Credit against presentation of a demand, draft or certificate or other document which does not comply with the terms of such Letter of Credit;

(vii) the solvency of, or any acts or omissions by, any beneficiary of any Letter of Credit, or any other Person having a role in any transaction or obligation relating to a Letter of Credit, or the existence, nature, quality, quantity, condition, value or other characteristic of any property or services relating to a Letter of Credit;

(viii) any failure by the Agent or any of Agent's Affiliates to issue any Letter of Credit in the form requested by Borrowing Agent, unless the Agent has received written notice from Borrowing Agent of such failure within three (3) Business Days after the Agent shall have furnished Borrowing Agent a copy of such Letter of Credit and such error is material and no drawing has been made thereon prior to receipt of such notice;

(ix) any Material Adverse Effect;

(x) any breach of this Agreement or any Other Document by any party thereto;

(xi) the occurrence or continuance of an insolvency proceeding with respect to any Borrower or any Guarantor;

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(xii) the fact that a Default or Event of Default shall have occurred and be continuing;

(xiii) the fact that the Term shall have expired or this Agreement or the Obligations hereunder shall have been terminated; and

(xiv) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

2.17. Indemnity. In addition to amounts payable as provided in Section 16.5, each Borrower hereby agrees to protect, indemnify, pay and save harmless Agent and any of Agent's Affiliates that have issued a Letter of Credit from and against any and all claims, demands, liabilities, damages, taxes, penalties, interest, judgments, losses, costs, charges and expenses (including reasonable fees, expenses and disbursements of counsel and allocated costs of internal counsel) which the Agent or any of Agent's Affiliates may incur or be subject to as a consequence, direct or indirect, of the issuance of any Letter of Credit, other than as a result of (a) the gross negligence or willful misconduct of the Agent as determined by a final and non-appealable judgment of a court of competent jurisdiction or (b) the wrongful dishonor by the Agent or any of Agent's Affiliates of a proper demand for payment made under any Letter of Credit, except if such dishonor resulted from any act or omission, whether rightful or wrongful, of any present or future de jure or de facto Governmental Body (all such acts or omissions herein called "Governmental Acts").

2.18. Liability for Acts and Omissions. As between Borrowers and Agent and Lenders, each Borrower assumes all risks of the acts and omissions of, or misuse of the Letters of Credit by, the respective beneficiaries of such Letters of Credit. In furtherance and not in limitation of the respective foregoing, Agent shall not be responsible for: (i) the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any party in connection with the application for an issuance of any such Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged (even if Agent shall have been notified thereof); (ii) the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any such Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (iii) the failure of the beneficiary of any such Letter of Credit, or any other party to which such Letter of Credit may be transferred, to comply fully with any conditions required in order to draw upon such Letter of Credit or any other claim of any Borrower against any beneficiary of such Letter of Credit, or any such transferee, or any dispute between or among any Borrower and any beneficiary of any Letter of Credit or any such transferee; (iv) errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, facsimile, telex or otherwise, whether or not they be in cipher; (v) errors in interpretation of technical terms; (vi) any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any such Letter of Credit or of the proceeds thereof; (vii) the misapplication by the beneficiary of any such Letter of Credit of the proceeds of any drawing under such Letter of Credit; or (viii) any consequences arising from causes beyond the control of Agent, including any governmental acts, and none of the above shall affect or impair, or prevent the vesting of, any of Agent's rights or powers hereunder. Nothing in the preceding sentence shall relieve Agent from liability for Agent's gross negligence or willful misconduct (as

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determined by a court of competent jurisdiction in a final non-appealable judgment) in connection with actions or omissions described in such clauses (i) through (viii) of such sentence. In no event shall Agent or Agent's Affiliates be liable to any Borrower for any indirect, consequential, incidental, punitive, exemplary or special damages or expenses (including without limitation attorneys' fees), or for any damages resulting from any change in the value of any property relating to a Letter of Credit.

Without limiting the generality of the foregoing, Agent and each of its Affiliates: (i) may rely on any oral or other communication believed in good faith by Agent or such Affiliate to have been authorized or given by or on behalf of the applicant for a Letter of Credit; (ii) may honor any presentation if the documents presented appear on their face substantially to comply with the terms and conditions of the relevant Letter of Credit; (iii) may honor a previously dishonored presentation under a Letter of Credit, whether such dishonor was pursuant to a court order, to settle or compromise any claim of wrongful dishonor, or otherwise, and shall be entitled to reimbursement to the same extent as if such presentation had initially been honored, together with any interest paid by Agent or its Affiliates; (iv) may honor any drawing that is payable upon presentation of a statement advising negotiation or payment, upon receipt of such statement (even if such statement indicates that a draft or other document is being delivered separately), and shall not be liable for any failure of any such draft or other document to arrive, or to conform in any way with the relevant Letter of Credit; (v) may pay any paying or negotiating bank claiming that it rightfully honored under the laws or practices of the place where such bank is located; and (vi) may settle or adjust any claim or demand made on Agent or its Affiliate in any way related to any order issued at the applicant's request to an air carrier, a letter of guarantee or of indemnity issued to a carrier or any similar document (each an "Order") and honor any drawing in connection with any Letter of Credit that is the subject of such Order, notwithstanding that any drafts or other documents presented in connection with such Letter of Credit fail to conform in any way with such Letter of Credit.

In furtherance and extension and not in limitation of the specific provisions set forth above, any action taken or omitted by Agent under or in connection with the Letters of Credit issued by it or any documents and certificates delivered thereunder, if taken or omitted in good faith and without gross negligence (as determined by a court of competent jurisdiction in a final non-appealable judgment), shall not put Agent under any resulting liability to any Borrower or any Lender.

2.19. Additional Payments. Any sums expended by Agent or any Lender due to any Borrower's failure to perform or comply with its obligations under this Agreement or any Other Document including any Borrower's obligations under Sections 4.2, 4.4, 4.12, 4.13, 4.14, 4.20 and 6.1 hereof, may be charged to Borrowers' Account as a Revolving Advance and added to the Obligations.

2.20. Manner of Borrowing and Payment.

(a) Each borrowing of Revolving Advances shall be advanced according to the applicable Commitment Percentages of Lenders. The Term Loan shall be advanced according to the Commitment Percentages of Lenders.

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(b) Each payment (including each prepayment) by any Borrower on account of the principal of and interest on the Revolving Advances, shall be applied to the Revolving Advances pro rata according to the applicable Commitment Percentages of Lenders. Each payment (including each prepayment) by any Borrower on account of the principal of and interest on the Term Note, shall be applied to that portion of the Term Loan evidenced by the Term Note pro rata according to the Commitment Percentages of Lenders. Except as expressly provided herein, all payments (including prepayments) to be made by any Borrower on account of principal, interest and fees shall be made without set off or counterclaim and shall be made to Agent on behalf of the Lenders to the Payment Office, in each case on or prior to 1:00 P.M., in Dollars and in immediately available funds.

(c) (i) Notwithstanding anything to the contrary contained in Sections 2.20(a) and (b) hereof, commencing with the first Business Day following the Closing Date, each borrowing of Revolving Advances shall be advanced by Agent and each payment by any Borrower on account of Revolving Advances shall be applied first to those Revolving Advances advanced by Agent. On or before 1:00 P.M., on each Settlement Date commencing with the first Settlement Date following the Closing Date, Agent and Lenders shall make certain payments as follows: (I) if the aggregate amount of new Revolving Advances made by Agent during the preceding Week (if any) exceeds the aggregate amount of repayments applied to outstanding Revolving Advances during such preceding Week, then each Lender shall provide Agent with funds in an amount equal to its applicable Commitment Percentage of the difference between (w) such Revolving Advances and (x) such repayments and (II) if the aggregate amount of repayments applied to outstanding Revolving Advances during such Week exceeds the aggregate amount of new Revolving Advances made during such Week, then Agent shall provide each Lender with funds in an amount equal to its applicable Commitment Percentage of the difference between (y) such repayments and (z) such Revolving Advances.

(ii) Each Lender shall be entitled to earn interest at the applicable Contract Rate applicable Revolving Interest Rate on outstanding Advances which it has funded.

(iii) Promptly following each Settlement Date, Agent shall submit to each Lender a certificate with respect to payments received and Advances made during the Week immediately preceding such Settlement Date. Such certificate of Agent shall be conclusive in the absence of manifest error.

(d) If any Lender or Participant (a "Benefited Lender") shall at any time receive any payment of all or part of its Advances, or interest thereon, or receive any Collateral in respect thereof (whether voluntarily or involuntarily or by set-off) in a greater proportion than any such payment to and Collateral received by any other Lender, if any, in respect of such other Lender's Advances, or interest thereon, and such greater proportionate payment or receipt of Collateral is not expressly permitted hereunder, such Benefited Lender shall purchase for cash from the other Lenders a participation in such portion of each such other Lender's Advances, or shall provide such other Lender with the benefits of any such Collateral, or the proceeds thereof, as shall be necessary to cause such Benefited Lender to share the excess payment or benefits of such Collateral or proceeds ratably with each of the other Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such Benefited Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the

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extent of such recovery, but without interest. Each Lender so purchasing a portion of another Lender's Advances may exercise all rights of payment (including rights of set-off) with respect to such portion as fully as if such Lender were the direct holder of such portion.

(e) Unless Agent shall have been notified by telephone, confirmed in writing, by any Lender that such Lender will not make the amount which would constitute its applicable Commitment Percentage of the Advances available to Agent, Agent may (but shall not be obligated to) assume that such Lender shall make such amount available to Agent on the next Settlement Date and, in reliance upon such assumption, make available to Borrowers a corresponding amount. Agent will promptly notify Borrowing Agent of its receipt of any such notice from a Lender. If such amount is made available to Agent on a date after such next Settlement Date, such Lender shall pay to Agent on demand an amount equal to the product of (i) the daily average Federal Funds Effective Rate (computed on the basis of a year of 360 days) during such period as quoted by Agent, times (ii) such amount, times (iii) the number of days from and including such Settlement Date to the date on which such amount becomes immediately available to Agent. A certificate of Agent submitted to any Lender with respect to any amounts owing under this paragraph (e) shall be conclusive, in the absence of manifest error. If such amount is not in fact made available to Agent by such Lender within three (3) Business Days after such Settlement Date, Agent shall be entitled to recover such an amount, with interest thereon at the rate per annum then applicable to such Revolving Advances hereunder, on demand from Borrowers; provided, however, that Agent's right to such recovery shall not prejudice or otherwise adversely affect Borrowers' rights (if any) against such Lender.

2.21. Mandatory Prepayments. Subject to Section 4.3 hereof, when any Borrower sells or otherwise disposes of any Collateral, other than Inventory in the Ordinary Course of Business, resulting in the receipt of net proceeds in an amount in excess of \$10,000 for any individual item or in excess of \$50,000 in the aggregate in any twelve (12) month period, Borrowers shall repay the Advances in an amount equal to the net proceeds of such sale (i.e., gross proceeds less the reasonable costs of such sales or other dispositions), such repayments to be made promptly but in no event more than one (1) Business Day following receipt of such net proceeds, and until the date of payment, such proceeds shall be held in trust for Agent. The foregoing shall not be deemed to be implied consent to any such sale otherwise prohibited by the terms and conditions hereof. Such repayments shall be applied, (y) first, to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof and (z) next, to the remaining Advances in such order as Agent may determine, subject to Borrowers' ability to reborrow Revolving Advances in accordance with the terms hereof.

2.22. Use of Proceeds.

(a) Borrowers shall apply the proceeds of Advances to (i) repay existing indebtedness owed to Spectrum Commercial Services, (ii) pay fees and expenses relating to this transaction, and (iii) provide for its working capital needs and reimburse drawings under Letters of Credit.

(b) Without limiting the generality of Section 2.22(a) above, neither the Borrowers, the Guarantors nor any other Person which may in the

any portion of the proceeds of the Advances, directly or indirectly, for any purpose in violation of the Trading with the Enemy Act.

2.23. Defaulting Lender.

(a) Notwithstanding anything to the contrary contained herein, in the event any Lender (x) has refused (which refusal constitutes a breach by such Lender of its obligations under this Agreement) to make available its portion of any Advance or (y) notifies either Agent or Borrowing Agent that it does not intend to make available its portion of any Advance (if the actual refusal would constitute a breach by such Lender of its obligations under this Agreement) (each, a "Lender Default"), all rights and obligations hereunder of such Lender (a "Defaulting Lender") as to which a Lender Default is in effect and of the other parties hereto shall be modified to the extent of the express provisions of this Section 2.23 while such Lender Default remains in effect.

(b) Advances shall be incurred pro rata from Lenders (the "Non-Defaulting Lenders") which are not Defaulting Lenders based on their respective Commitment Percentages, and no Commitment Percentage of any Lender or any pro rata share of any Advances required to be advanced by any Lender shall be increased as a result of such Lender Default. Amounts received in respect of principal of any type of Advances shall be applied to reduce the applicable Advances of each Lender (other than any Defaulting Lender) pro rata based on the aggregate of the outstanding Advances of that type of all Lenders at the time of such application; provided, that, Agent shall not be obligated to transfer to a Defaulting Lender any payments received by Agent for the Defaulting Lender's benefit, nor shall a Defaulting Lender be entitled to the sharing of any payments hereunder (including any principal, interest or fees). Amounts payable to a Defaulting Lender shall instead be paid to or retained by Agent. Agent may hold and, in its discretion, re-lend to a Borrower the amount of such payments received or retained by it for the account of such Defaulting Lender.

(c) A Defaulting Lender shall not be entitled to give instructions to Agent or to approve, disapprove, consent to or vote on any matters relating to this Agreement and the Other Documents. All amendments, waivers and other modifications of this Agreement and the Other Documents may be made without regard to a Defaulting Lender and, for purposes of the definition of "Required Lenders", a Defaulting Lender shall be deemed not to be a Lender and not to have either Advances outstanding or a Commitment Percentage.

(d) Other than as expressly set forth in this Section 2.23, the rights and obligations of a Defaulting Lender (including the obligation to indemnify Agent) and the other parties hereto shall remain unchanged. Nothing in this Section 2.23 shall be deemed to release any Defaulting Lender from its obligations under this Agreement and the Other Documents, shall alter such obligations, shall operate as a waiver of any default by such Defaulting Lender hereunder, or shall prejudice any rights which any Borrower, Agent or any Lender may have against any Defaulting Lender as a result of any default by such Defaulting Lender hereunder.

(e) In the event a Defaulting Lender retroactively cures to the satisfaction of Agent the breach which caused a Lender to become a Defaulting Lender, such Defaulting Lender shall no longer be a Defaulting Lender and shall be treated as a Lender under this Agreement.

III. INTEREST AND FEES.

3.1. Interest.

(a) Interest on Advances shall be payable in arrears on the first day of each month with respect to Domestic Rate Loans and, with respect to Eurodollar Rate Loans, at the end of each Interest Period or, for Eurodollar Rate Loans with an Interest Period in excess of three months, at the earlier of (a) each three months from the commencement of such Eurodollar Rate Loan or (b) the end of the Interest Period. Interest charges shall be computed on the actual principal amount of Advances outstanding during the month at a rate per annum equal to (i) with respect to Revolving Advances, the applicable Revolving Interest Rate and (ii) with respect to the Term Loan, the applicable Term Loan Rate (as applicable, the "Contract Rate"). Whenever, subsequent to the date of this Agreement, the Alternate Base Rate is increased or decreased, the applicable Contract Rate for Domestic Rate Loans shall be similarly changed without notice or demand of any kind by an amount equal to the amount of such change in the Alternate Base Rate during the time such change or changes remain in effect. The Eurodollar Rate shall be adjusted with respect to Eurodollar Rate Loans without notice or demand of any kind on the effective date of any change in the Reserve Percentage as of such effective date. Upon and after the occurrence of an Event of Default, and during the continuation thereof, at the option of Agent or at the direction of Required Lenders, the Obligations shall bear interest at the applicable Contract Rate for Domestic Rate Loans plus two (2%) percent per annum (the "Default Rate").

(b) For the purposes of the Interest Act (Canada) and disclosure thereunder, whenever any interest or any fee to be paid hereunder or in connection herewith is to be calculated on the basis of a 360-day year, the yearly rate of interest to which the rate used in such calculation is equivalent is the rate so used multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by 360. The rates of interest under this Agreement are nominal rates, and not effective rates or yields. The principle of deemed reinvestment of interest does not apply to any interest calculation under this Agreement.

(c) Any provision of this Agreement that would oblige a Canadian Borrower to pay any fine, penalty or rate of interest on any arrears of principal or interest secured by a mortgage on real property or hypothec on immovables that has the effect of increasing the charge on arrears beyond the rate of interest payable on principal money not in arrears shall not apply to such Canadian Borrower, which shall be required to pay interest on money in arrears at the same rate of interest payable on principal money not in arrears.

(d) If any provision of this Agreement would oblige a Canadian Borrower to make any payment of interest or other amount payable to any Lender in an amount or calculated at a rate which would be prohibited by law or would result in a receipt by that Lender of "interest" at a "criminal rate" (as such terms are construed under the Criminal Code (Canada)), then, notwithstanding such provision, such amount or rate shall be deemed to have been adjusted with retroactive effect to the maximum amount or rate of interest, as the case may be, as would not be so prohibited by applicable law or so result in a receipt by that Lender of "interest" at a "criminal rate", such adjustment to be effected, to the extent necessary (but only to the extent necessary), as follows:

(e) first, by reducing the amount or rate of interest; and

(f) thereafter, by reducing any fees, commissions, costs, expenses, premiums and other amounts required to be paid which would constitute interest for purposes of section 347 of the Criminal Code (Canada).

3.2. Letter of Credit Fees.

(a) Borrowers shall pay (x) to Agent, for the ratable benefit of Lenders, fees for each Letter of Credit for the period from and excluding the date of issuance of same to and including the date of expiration or termination, equal to the average daily face amount of each outstanding Letter of Credit multiplied by two and three quarters of one percent (2.75%) per annum, such fees to be calculated on the basis of a 360-day year for the actual number of days elapsed and to be payable quarterly in arrears on the first day of each quarter and on the last day of the Term, and (y) to the Issuer, a fronting fee of one quarter of one percent (0.25%) per annum, together with any and all administrative, issuance, amendment, payment and negotiation charges with respect to Letters of Credit and all fees and expenses as agreed upon by the Issuer and the Borrowing Agent in connection with any Letter of Credit, including in connection with the opening, amendment or renewal of any such Letter of Credit and any acceptances created thereunder and shall reimburse Agent for any and all fees and expenses, if any, paid by Agent to the Issuer (all of the foregoing fees, the "Letter of Credit Fees"). All such charges shall be deemed earned in full on the date when the same are due and payable hereunder and shall not be subject to rebate or pro-ratio upon the termination of this Agreement for any reason. Any such charge in effect at the time of a particular transaction shall be the charge for that transaction, notwithstanding any subsequent change in the Issuer's prevailing charges for that type of transaction. All Letter of Credit Fees payable hereunder shall be deemed earned in full on the date when the same are due and payable hereunder and shall not be subject to rebate or pro-ratio upon the termination of this Agreement for any reason. Upon and after the occurrence of an Event of Default, and during the continuation thereof, at the option of Agent or at the direction of Required Lenders, the Letter of Credit Fees described in clause (x) of this Section 3.2(a) shall be increased by an additional two percent (2.0%) per annum.

(b) At any time following the occurrence of an Event of Default and upon the reasonable request by Agent, or the expiration of the Term Borrowers will cause cash to be deposited and maintained in an account with Agent, as cash collateral, in an amount equal to one hundred and five percent (105%) of the Maximum Undrawn Amount of all outstanding Letters of Credit, and each Borrower hereby irrevocably authorizes Agent, in its discretion, on such Borrower's behalf and in such Borrower's name, to open such an account and to make and maintain deposits therein, or in an account opened by such Borrower, in the amounts required to be made by such Borrower, out of the proceeds of Receivables or other Collateral or out of any other funds of such Borrower coming into any Lender's possession at any time. Agent will invest such cash collateral (less applicable reserves) in such short-term money-market items as to which Agent and such Borrower mutually agree and the net return on such investments shall be credited to such account and constitute additional cash collateral. No Borrower may withdraw amounts credited to any such account except upon the occurrence of all of the following: (x) payment and performance in full of all Obligations; (y) expiration of all Letters of Credit; and (z) termination of this Agreement.

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3.3. Reserved.

3.4. Fee Letter.

(a) Borrowers shall pay the amounts required to be paid in the Fee Letter in the manner and at the times required by the Fee Letter.

(b) All of the fees and out-of-pocket costs and expenses of any appraisals conducted pursuant to Section 4.21 hereof shall be paid for when due, in full and without off-set, by Borrowers; provided however that so long as no Default or Event of Default has occurred, Borrowers shall only be liable for the fees, out-of-pocket costs and expenses of one such appraisal per fiscal year.

3.5. Computation of Interest and Fees. Interest and fees hereunder shall be computed on the basis of a year of 360 days and for the actual number of days elapsed. If any payment to be made hereunder becomes due and payable on a day other than a Business Day, the due date thereof shall be extended to the next succeeding Business Day and interest thereon shall be payable at the applicable Contract Rate for Domestic Rate Loans during such extension.

3.6. Maximum Charges. In no event whatsoever shall interest and other charges charged hereunder exceed the highest rate permissible under law. In the event interest and other charges as computed hereunder would otherwise exceed the highest rate permitted under law, such excess amount shall be first applied to any unpaid principal balance owed by Borrowers, and if the then remaining excess amount is greater than the previously unpaid principal balance, Lenders shall promptly refund such excess amount to Borrowers and the provisions hereof shall be deemed amended to provide for such permissible rate.

3.7. Increased Costs. In the event that any Applicable Law, treaty or governmental regulation, or any change therein or in the interpretation or application thereof, or compliance by any Lender (for purposes of this Section 3.7, the term "Lender" shall include Agent or any Lender and any corporation or bank controlling Agent or any Lender and the office or branch where Agent or any Lender (as so defined) makes or maintains any Eurodollar Rate Loans) with any request or directive (whether or not having the force of law) from any central bank or other financial, monetary or other authority, shall:

(a) subject Agent or any Lender to any tax of any kind whatsoever with respect to this Agreement or any Other Document or change the basis of taxation of payments to Agent or any Lender of principal, fees, interest or any other amount payable hereunder or under any Other Documents (except for changes in the rate of tax on the overall net income of Agent or any Lender by the jurisdiction in which it maintains its principal office);

(b) impose, modify or hold applicable any reserve, special deposit, assessment or similar requirement against assets held by, or deposits in or for the account of, advances or loans by, or other credit extended by, any office of Agent or any Lender, including pursuant to Regulation D of the Board of Governors of the Federal Reserve System; or

(c) impose on Agent or any Lender or the London interbank Eurodollar market any other condition with respect to this Agreement or any Other Document;

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and the result of any of the foregoing is to increase the cost to Agent or any Lender of making, renewing or maintaining its Advances hereunder by an amount that Agent or such Lender deems to be material or to reduce the amount of any payment (whether of principal, interest or otherwise) in respect of any of the Advances by an amount that Agent or such Lender deems to be material, then, in any case Borrowers shall promptly pay Agent or such Lender, upon its

demand, such additional amount as will compensate Agent or such Lender for such additional cost or such reduction, as the case may be, provided that the foregoing shall not apply to increased costs which are reflected in the Eurodollar Rate, as the case may be. Agent or such Lender shall certify the amount of such additional cost or reduced amount to Borrowing Agent, and such certification shall be conclusive absent manifest error.

Borrowers shall not be under any obligation to compensate any Lender under this Section 3.7 with respect to increased costs or reductions with respect to any period prior to the date that is 180 days prior to such request; provided further, that the foregoing limitation shall not apply to any increased costs or reductions arising out of the retroactive application of any change in law within such 180 day period.

3.8. Basis For Determining Interest Rate Inadequate or Unfair. In the event that Agent or any Lender shall have determined that:

(a) reasonable means do not exist for ascertaining the Eurodollar Rate for any Interest Period; or

(b) Dollar deposits in the relevant amount and for the relevant maturity are not available in the London interbank Eurodollar market, with respect to an outstanding Eurodollar Rate Loan, a proposed Eurodollar Rate Loan, or a proposed conversion of a Domestic Rate Loan into a Eurodollar Rate Loan,

then Agent shall give Borrowing Agent prompt written or telephonic notice of such determination. If such notice is given, (i) any such requested Eurodollar Rate Loan shall be made as a Domestic Rate Loan, unless Borrowing Agent shall notify Agent no later than 10:00 a.m. two (2) Business Days prior to the date of such proposed borrowing, that its request for such borrowing shall be cancelled or made as an unaffected type of Eurodollar Rate Loan, (ii) any Domestic Rate Loan or Eurodollar Rate Loan which was to have been converted to an affected type of Eurodollar Rate Loan shall be continued as or converted into a Domestic Rate Loan, or, if Borrowing Agent shall notify Agent, no later than 10:00 a.m. two (2) Business Days prior to the proposed conversion, shall be maintained as an unaffected type of Eurodollar Rate Loan, and (iii) any outstanding affected Eurodollar Rate Loans shall be converted into a Domestic Rate Loan, or, if Borrowing Agent shall notify Agent, no later than 10:00 a.m. two (2) Business Days prior to the last Business Day of the then current Interest Period applicable to such affected Eurodollar Rate Loan, shall be converted into an unaffected type of Eurodollar Rate Loan, on the last Business Day of the then current Interest Period for such affected Eurodollar Rate Loans. Until such notice has been withdrawn, Lenders shall have no obligation to make an affected type of Eurodollar Rate Loan or maintain outstanding affected Eurodollar Rate Loans and no Borrower shall have the right to convert a Domestic Rate Loan or an unaffected type of Eurodollar Rate Loan into an affected type of Eurodollar Rate Loan.

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3.9. Capital Adequacy.

(a) In the event that Agent or any Lender shall have determined that any Applicable Law, rule, regulation or guideline regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any Governmental Body, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Agent or any Lender (for purposes of this Section 3.9, the term "Lender" shall include Agent or any Lender and any corporation or bank controlling Agent or any Lender and the office or branch where Agent or any Lender (as so defined) makes or maintains any Eurodollar Rate Loans) with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on Agent or any Lender's capital as a consequence of its obligations hereunder to a level below that which Agent or such Lender could have achieved but for such adoption, change or compliance (taking into consideration Agent's and each Lender's policies with respect to capital adequacy) by an amount deemed by Agent or any Lender to be material, then, from time to time, Borrowers shall pay upon demand (including documentation supporting such request) to Agent or such Lender such additional amount or amounts as will compensate Agent or such Lender for such reduction. In determining such amount or amounts, Agent or such Lender may use any reasonable averaging or attribution methods. The protection of this Section 3.9 shall be available to Agent and each Lender regardless of any possible contention of invalidity or inapplicability with respect to the Applicable Law, regulation or condition.

(b) A certificate of Agent or such Lender setting forth such amount or amounts as shall be necessary to compensate Agent or such Lender with respect to Section 3.9(a) hereof when delivered to Borrowing Agent shall be conclusive absent manifest error.

3.10. Gross Up for Taxes. If any Borrower shall be required by Applicable Law to withhold or deduct any taxes from or in respect of any sum payable under this Agreement or any of the Other Documents to Agent, or any Lender, assignee of any Lender, or Participant (each, individually, a "Payee" and collectively, the "Payees"). (a) the sum payable to such Payee or Payees, as the case may be, shall be increased as may be necessary so that, after making all required withholding or deductions, the applicable Payee or Payees receives an amount equal to the sum it would have received had no such withholding or deductions been made (the "Gross-Up Payment"), (b) such Borrower shall make such withholding or deductions, and (c) such Borrower shall pay the full amount withheld or deducted to the relevant taxation authority or other authority in accordance with Applicable Law. Notwithstanding the foregoing, no Borrower shall be obligated to make any portion of the Gross-Up Payment that is attributable to any withholding or deductions that would not have been paid or claimed had the applicable Payee or Payees properly claimed a complete exemption with respect thereto pursuant to Section 3.11 hereof.

3.11. Withholding Tax Exemption.

(a) Each Payee that is not incorporated under the Laws of the United States of America or a state thereof (and, upon the written request of Agent, each other Payee) agrees that it will deliver to Borrowing Agent and Agent two (2) duly completed appropriate valid

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Withholding Certificates (as defined under §1.1441-1(c)(16) of the Income Tax Regulations ("Regulations")) certifying its status (i.e., U.S. or foreign person) and, if appropriate, making a claim of reduced, or exemption from, U.S. withholding tax on the basis of an income tax treaty or an exemption provided by the Code. The term "Withholding Certificate" means a Form W-9; a Form W-8BEN; a Form W-8ECI; a Form W-8IMY and the related statements and certifications as required under §1.1441-1(e)(2) and/or (3) of the Regulations; a statement described in §1.871-14(c)(2)(v) of the Regulations; or any other certificates under the Code or Regulations that certify or establish the status of a payee or beneficial owner as a U.S. or foreign person.

(b) Each Payee required to deliver to Borrowing Agent and Agent a valid Withholding Certificate pursuant to Section 3.11(a) hereof shall deliver such valid Withholding Certificate as follows: (i) each Payee which is a party hereto on the Closing Date shall deliver such valid Withholding Certificate at least five (5) Business Days prior to the first date on which any interest or fees are payable by any Borrower hereunder for the account of such Payee; (ii) each Payee shall deliver such valid Withholding Certificate at least five (5) Business Days before the effective date of such assignment or participation (unless Agent in its sole discretion shall permit such Payee to deliver such Withholding Certificate less than five (5) Business Days before such date in which case it shall be due

on the date specified by Agent). Each Payee which so delivers a valid Withholding Certificate further undertakes to deliver to Borrowing Agent and Agent two (2) additional copies of such Withholding Certificate (or a successor form) on or before the date that such Withholding Certificate expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent Withholding Certificate so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by Borrowing Agent or Agent.

(c) Notwithstanding the submission of a Withholding Certificate claiming a reduced rate of or exemption from U.S. withholding tax required under Section 3.11(b) hereof, Agent shall be entitled to withhold United States federal income taxes at the full 30% withholding rate if in its reasonable judgment it is required to do so under the due diligence requirements imposed upon a withholding agent under §1.1441-7(b) of the Regulations. Further, Agent is indemnified under §1.1461-1(e) of the Regulations against any claims and demands of any Payee for the amount of any tax it deducts and withholds in accordance with regulations under §1441 of the Code.

IV. COLLATERAL: GENERAL TERMS

4.1. Security Interest in the Collateral. To secure the prompt payment and performance to Agent and each Lender of the Obligations, each Borrower hereby assigns, pledges and grants to Agent for its benefit and for the ratable benefit of each Lender a continuing security interest in and to and Lien on all of its Collateral, whether now owned or existing or hereafter acquired or arising and wheresoever located. Each Borrower shall mark its books and records as may be necessary or appropriate to evidence, protect and perfect Agent's security interest and shall cause its financial statements to reflect such security interest. Each Borrower shall promptly provide Agent with written notice of all commercial tort claims, such notice to contain the case title together with the applicable court and a brief description of the claim(s).

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Upon delivery of each such notice, such Borrower shall be deemed to hereby grant to Agent a security interest and lien in and to such commercial tort claims and all proceeds thereof.

4.2. Perfection of Security Interest. Each Borrower shall take all action that may be necessary or desirable, or that Agent may request, so as at all times to maintain the validity, perfection, enforceability and priority of Agent's security interest in and Lien on the Collateral or to enable Agent to protect, exercise or enforce its rights hereunder and in the Collateral, including, but not limited to, (i) immediately discharging all Liens other than Permitted Encumbrances, (ii) obtaining Lien Waiver Agreements, (iii) delivering to Agent, endorsed or accompanied by such instruments of assignment as Agent may specify, and stamping or marking, in such manner as Agent may specify, any and all chattel paper, instruments, letters of credits and advices thereof and documents evidencing or forming a part of the Collateral, (iv) entering into warehousing, lockbox and other custodial arrangements satisfactory to Agent, and (v) executing and delivering financing statements, control agreements, instruments of pledge, mortgages, notices and assignments, in each case in form and substance satisfactory to Agent, relating to the creation, validity, perfection, maintenance or continuation of Agent's security interest and Lien under the Uniform Commercial Code or other Applicable Law. By its signature hereto, each Borrower hereby authorizes Agent to file against such Borrower, one or more financing, continuation or amendment statements pursuant to the Uniform Commercial Code in form and substance satisfactory to Agent (which statements may have a description of collateral which is broader than that set forth herein). All charges, expenses and fees Agent may incur in doing any of the foregoing, and any local taxes relating thereto, shall be charged to Borrowers' Account as a Revolving Advance of a Domestic Rate Loan and added to the Obligations, or, at Agent's option, shall be paid to Agent for its benefit and for the ratable benefit of Lenders immediately upon demand.

4.3. Disposition of Collateral. Each Borrower will safeguard and protect all Collateral for Agent's general account and make no disposition thereof whether by sale, lease or otherwise except (a) the sale of Inventory in the Ordinary Course of Business and (b) the disposition or transfer of obsolete and worn-out Equipment in the Ordinary Course of Business during any fiscal year having an aggregate fair market value of not more than \$100,000 and only to the extent that (i) the proceeds of any such disposition are used to acquire replacement Equipment which is subject to Agent's first priority security interest or (ii) the proceeds of which are remitted to Agent to be applied pursuant to Section 2.21.

4.4. Preservation of Collateral. Following the occurrence of a Default or Event of Default in addition to the rights and remedies set forth in Section 11.1 hereof, Agent: (a) may at any time take such steps as Agent deems necessary to protect Agent's interest in and to preserve the Collateral, including the hiring of such security guards or the placing of other security protection measures as Agent may deem appropriate; (b) may employ and maintain at any of any Borrower's premises a custodian who shall have full authority to do all acts necessary to protect Agent's interests in the Collateral; (c) may lease warehouse facilities to which Agent may move all or part of the Collateral; (d) may use any Borrower's owned or leased lifts, hoists, trucks and other facilities or equipment for handling or removing the Collateral; and (e) shall have, and is hereby granted, a right of ingress and egress to the places where the Collateral is located, and may proceed over and through any of Borrowers' owned or leased property. Each Borrower shall cooperate fully with all of Agent's efforts to preserve the Collateral and will take such

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actions to preserve the Collateral as Agent may direct. All of Agent's expenses of preserving the Collateral, including any expenses relating to the bonding of a custodian, shall be charged to Borrowers' Account as a Revolving Advance maintained as a Domestic Rate Loan and added to the Obligations.

4.5. Ownership of Collateral.

(a) With respect to the Collateral, at the time the Collateral becomes subject to Agent's security interest: (i) each Borrower shall be the sole owner of and fully authorized and able to sell, transfer, pledge and/or grant a first priority security interest in each and every item of its respective Collateral to Agent; and, except for Permitted Encumbrances the Collateral shall be free and clear of all Liens and encumbrances whatsoever; (ii) each document and agreement executed by each Borrower or delivered to Agent or any Lender in connection with this Agreement shall be true and correct in all respects; (iii) all signatures and endorsements of each Borrower that appear on such documents and agreements shall be genuine and each Borrower shall have full capacity to execute same; and (iv) each Borrower's Equipment and Inventory shall be located as set forth on Schedule 4.5 and shall not be removed from such location(s) without the prior written consent of Agent except with respect to the sale of Inventory in the Ordinary Course of Business and Equipment to the extent permitted in Section 4.3 hereof.

(b) (i) There is no location at which any Borrower has any Inventory (except for Inventory in transit) other than those locations listed on Schedule 4.5; (ii) Schedule 4.5 hereto contains a correct and complete list, as of the Closing Date, of the legal names and addresses of each warehouse at which Inventory of any Borrower is stored; none of the receipts received by any Borrower from any warehouse states that the goods covered thereby are to be delivered to bearer or to the order of a named Person or to a named Person and such named Person's assigns; (iii) Schedule 4.5 hereto sets forth a correct and complete list as of the Closing Date of (A) each place of business of each Borrower and (B) the chief executive office of each Borrower; and (iv) Schedule 4.5

hereto sets forth a complete list of the Closing Date of the location, by state and street address, of all Real Property owned or leased by each Borrower, together with the names and addresses of any landlords.

4.6. Defense of Agent's and Lenders' Interests. Until (a) payment and performance in full of all of the Obligations and (b) termination of this Agreement, Agent's interests in the Collateral shall continue in full force and effect. During such period no Borrower shall, without Agent's prior written consent, pledge, sell (except Inventory in the Ordinary Course of Business and Equipment to the extent permitted in Section 4.3 hereof), assign, transfer, create or suffer to exist a Lien upon or encumber or allow or suffer to be encumbered in any way except for Permitted Encumbrances, any part of the Collateral. Each Borrower shall defend Agent's interests in the Collateral against any and all Persons whatsoever. At any time following demand by Agent for payment of all Obligations, Agent shall have the right to take possession of the indicia of the Collateral and the Collateral in whatever physical form contained, including: labels, stationery, documents, instruments and advertising materials. If Agent exercises this right to take possession of the Collateral, Borrowers shall, upon demand, assemble it in the best manner possible and make it available to Agent at a place reasonably convenient to Agent. In addition, with respect to all Collateral, Agent and Lenders shall be entitled to all of the rights and remedies set forth herein and further provided by the Uniform Commercial Code or other

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Applicable Law. Each Borrower shall, and Agent may, at its option, instruct all suppliers, carriers, forwarders, warehousemen or others receiving or holding cash, checks, Inventory, documents or instruments in which Agent holds a security interest to deliver same to Agent and/or subject to Agent's order and if they shall come into any Borrower's possession, they, and each of them, shall be held by such Borrower in trust as Agent's trustee, and such Borrower will immediately deliver them to Agent in their original form together with any necessary endorsement.

4.7. Books and Records. Each Borrower shall (a) keep proper books of record and account in which full, true and correct entries will be made of all dealings or transactions of or in relation to its business and affairs; (b) set up on its books accruals with respect to all taxes, assessments, charges, levies and claims; and (c) on a reasonably current basis set up on its books, from its earnings, allowances against doubtful Receivables, advances and investments and all other proper accruals (including by reason of enumeration, accruals for premiums, if any, due on required payments and accruals for depreciation, obsolescence, or amortization of properties), which should be set aside from such earnings in connection with its business. All determinations pursuant to this subsection shall be made in accordance with, or as required by, GAAP consistently applied in the opinion of such independent public accountant as shall then be regularly engaged by Borrowers.

4.8. Financial Disclosure. Each Borrower hereby irrevocably authorizes and directs all accountants and auditors employed by such Borrower at any time during the Term to exhibit and deliver to Agent and each Lender copies of any of such Borrower's financial statements, trial balances or other accounting records of any sort in the accountant's or auditor's possession, and to disclose to Agent and each Lender any information such accountants may have concerning such Borrower's financial status and business operations. Each Borrower hereby authorizes all Governmental Bodies to furnish to Agent and each Lender copies of reports or examinations relating to such Borrower, whether made by such Borrower or otherwise; however, Agent and each Lender will attempt to obtain such information or materials directly from such Borrower prior to obtaining such information or materials from such accountants or Governmental Bodies.

4.9. Compliance with Laws. Each Borrower shall comply in all material respects with all Applicable Laws with respect to the Collateral or any part thereof or to the operation of such Borrower's business the non-compliance with which could reasonably be expected to have a Material Adverse Effect. Each Borrower may, however, contest or dispute any Applicable Laws in any reasonable manner, provided that any related Lien is inchoate or stayed and sufficient reserves are established to the reasonable satisfaction of Agent to protect Agent's Lien on or security interest in the Collateral.

4.10. Inspection of Premises. At all reasonable times Agent and each Lender shall have full access to and the right to audit, check, inspect and make abstracts and copies from each Borrower's books, records, audits, correspondence and all other papers relating to the Collateral and the operation of each Borrower's business. Agent, any Lender and their agents may enter upon any premises of any Borrower at any time during business hours and at any other reasonable time, and from time to time, for the purpose of inspecting the Collateral and any and all records pertaining thereto and the operation of such Borrower's business.

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4.11. Insurance. The assets and properties of each Borrower at all times shall be maintained in accordance with the requirements of all insurance carriers which provide insurance with respect to the assets and properties of such Borrower so that such insurance shall remain in full force and effect. Each Borrower shall bear the full risk of any loss of any nature whatsoever with respect to the Collateral. At each Borrower's own cost and expense in amounts and with carriers acceptable to Agent, each Borrower shall (a) keep all its insurable properties and properties in which such Borrower has an interest insured against the hazards of fire, flood, sprinkler leakage, those hazards covered by extended coverage insurance and such other hazards, and for such amounts, as is customary in the case of companies engaged in businesses similar to such Borrower's including business interruption insurance; (b) maintain a bond in such amounts as is customary in the case of companies engaged in businesses similar to such Borrower insuring against larceny, embezzlement or other criminal misappropriation of insured's officers and employees who may either singly or jointly with others at any time have access to the assets or funds of such Borrower either directly or through authority to draw upon such funds or to direct generally the disposition of such assets; (c) maintain public and product liability insurance against claims for personal injury, death or property damage suffered by others; (d) maintain all such worker's compensation or similar insurance as may be required under the laws of any state or jurisdiction in which such Borrower is engaged in business; (e) furnish Agent with (i) copies of all policies and evidence of the maintenance of such policies by the renewal thereof at least thirty (30) days before any expiration date, and (ii) appropriate loss payable endorsements in form and substance satisfactory to Agent, naming Agent as a co-insured and lender loss payee as its interests may appear with respect to all insurance coverage referred to in clauses (a), and (c) above, and providing (A) that all proceeds thereunder shall be payable to Agent, (B) no such insurance shall be affected by any act or neglect of the insured or owner of the property described in such policy, and (C) that such policy and loss payable clauses may not be cancelled, amended or terminated unless at least thirty (30) days' prior written notice is given to Agent. In the event of any loss thereunder, the carriers named therein hereby are directed by Agent and the applicable Borrower to make payment for such loss to Agent and not to such Borrower and Agent jointly. If any insurance losses are paid by check, draft or other instrument payable to any Borrower and Agent jointly, Agent may endorse such Borrower's name thereon and do such other things as Agent may deem advisable to reduce the same to cash. Agent is hereby authorized to adjust and compromise claims under insurance coverage referred to in clauses (a), and (b) above. All loss recoveries received by Agent upon any such insurance may be applied to the Obligations, in such order as Agent in its sole discretion shall determine. Any surplus shall be paid by Agent to Borrowers or applied as may be otherwise required by law. Any deficiency thereon shall be paid by Borrowers to Agent, on demand.

4.12. Failure to Pay Insurance. If any Borrower fails to obtain insurance as hereinabove provided, or to keep the same in force, Agent, if Agent so elects, may obtain such insurance and pay the premium therefor on behalf of such Borrower, and charge Borrowers' Account therefor as a Revolving Advance of a Domestic Rate Loan and such expenses so paid shall be part of the Obligations.

4.13. Payment of Taxes. Each Borrower will pay, when due, all taxes, assessments and charges and all franchise, income, employment, social security benefits, withholding, and sales taxes. If any tax by any

Governmental Body is or may be imposed on or as a result of any transaction between any Borrower and Agent or any Lender which Agent or any Lender may be required to withhold or pay or if any taxes, assessments, or other Charges remain unpaid after the date fixed for their payment, or if any claim shall be made which, in Agent's or any Lender's opinion, may possibly create a valid Lien on the Collateral. Agent may without notice to Borrowers pay the taxes, assessments or other Charges and each Borrower hereby indemnifies and holds Agent and each Lender harmless in respect thereof. Agent will not pay any taxes, assessments or Charges to the extent that any applicable Borrower has Properly Contested those taxes, assessments or Charges. The amount of any payment by Agent under this Section 4.13 shall be charged to Borrowers' Account as a Revolving Advance maintained as a Domestic Rate Loan and added to the Obligations and, until Borrowers shall furnish Agent with an indemnity therefor (or supply Agent with evidence satisfactory to Agent that due provision for the payment thereof has been made), Agent may hold without interest any balance standing to Borrowers' credit and Agent shall retain its security interest in and Lien on any and all Collateral held by Agent.

4.14. Payment of Leasehold Obligations. Each Borrower shall at all times pay, when and as due, its rental obligations under all leases under which it is a tenant, and shall otherwise comply, in all material respects, with all other terms of such leases and keep them in full force and effect and, at Agent's request will provide evidence of having done so.

4.15. Receivables.

(a) Nature of Receivables. Each of the Receivables shall be a bona fide and valid account representing a bona fide indebtedness incurred by the Customer therein named, for a fixed sum as set forth in the invoice relating thereto (provided immaterial or unintentional invoice errors shall not be deemed to be a breach hereof) with respect to an absolute sale or lease and delivery of goods upon stated terms of a Borrower, or work, labor or services theretofore rendered by a Borrower as of the date each Receivable is created. Same shall be due and owing in accordance with the applicable Borrower's standard terms of sale without dispute, setoff or counterclaim except as may be stated on the accounts receivable schedules delivered by Borrowers to Agent.

(b) Solvency of Customers. Each Customer, to the best of each Borrower's knowledge, as of the date each Receivable is created, is and will be solvent and able to pay all Receivables on which the Customer is obligated in full when due or with respect to such Customers of any Borrower who are not solvent such Borrower has set up on its books and in its financial records bad debt reserves adequate to cover such Receivables.

(c) Location of Borrowers. Each Borrower's chief executive office is located at 7400 Excelsior Boulevard, Minneapolis, MN 55426. Until written notice is given to Agent by Borrowing Agent of any other office at which any Borrower keeps its records pertaining to Receivables, all such records shall be kept at such executive office.

(d) Collection of Receivables. Borrowers shall instruct their Customers to deliver all remittances upon Receivables to such lockbox account or Blocked Account as Agent shall designate from time to time as contemplated by Section 4.15(h) or as otherwise agreed to from time to time by Agent. Notwithstanding the foregoing, to the extent any Borrower directly

receives any remittances upon Receivables, such Borrower will, at such Borrower's sole cost and expense, but on Agent's behalf and for Agent's account, collect as Agent's property and in trust for Agent all amounts received on Receivables, and shall not commingle such collections with any Borrower's funds or use the same except to pay Obligations. Each Borrower shall deposit in the Blocked Account or, upon request by Agent, deliver to Agent, in original form and on the date of receipt thereof, all checks, drafts, notes, money orders, acceptances, cash and other evidences of Indebtedness.

(e) Notification of Assignment of Receivables. At any time Agent shall have the right to send notice of the assignment of, and Agent's security interest in and Lien on, the Receivables to any and all Customers or any third party holding or otherwise concerned with any of the Collateral. At any time after the occurrence and during the continuance of an Event of Default, Agent shall have the sole right to collect the Receivables, take possession of the Collateral, or both. Agent's actual collection expenses, including, but not limited to, stationery and postage, telephone and telegraph, secretarial and clerical expenses and the salaries of any collection personnel used for collection, may be charged to Borrowers' Account and added to the Obligations.

(f) Power of Agent to Act on Borrowers' Behalf. Agent shall have the right to receive, endorse, assign and/or deliver in the name of Agent or any Borrower any and all checks, drafts and other instruments for the payment of money relating to the Receivables, and each Borrower hereby waives notice of presentment, protest and non-payment of any instrument so endorsed. Each Borrower hereby constitutes Agent or Agent's designee as such Borrower's attorney with power (i) at any time: (A) to endorse such Borrower's name upon any notes, acceptances, checks, drafts, money orders or other evidences of payment or Collateral; (B) to sign such Borrower's name on any invoice or bill of lading relating to any of the Receivables, drafts against Customers, assignments and verifications of Receivables; (C) to send verifications of Receivables to any Customer; (D) to sign such Borrower's name on all financing statements or any other documents or instruments deemed necessary or appropriate by Agent to preserve, protect, or perfect Agent's interest in the Collateral and to file same; and (E) to receive, open and dispose of all mail addressed to any Borrower; and (ii) at any time following the occurrence of a Default or Event of Default: (A) to demand payment of the Receivables; (B) to enforce payment of the Receivables by legal proceedings or otherwise; (C) to exercise all of such Borrower's rights and remedies with respect to the collection of the Receivables and any other Collateral; (D) to settle, adjust, compromise, extend or renew the Receivables; (E) to settle, adjust or compromise any legal proceedings brought to collect Receivables; (F) to prepare, file and sign such Borrower's name on a proof of claim in bankruptcy or similar document against any Customer; (G) to prepare, file and sign such Borrower's name on any notice of Lien, assignment or satisfaction of Lien or similar document in connection with the Receivables; and (H) to do all other acts and things necessary to carry out this Agreement. All acts of said attorney or designee are hereby ratified and approved, and said attorney or designee shall not be liable for any acts of omission or commission nor for any error of judgment or mistake of fact or of law, unless done maliciously or with gross (not mere) negligence (as determined by a court of competent jurisdiction in a final non-appealable judgment); this power being coupled with an interest is irrevocable while any of the Obligations remain unpaid. Agent shall have the right at any time following the occurrence of an Event of Default or Default to change the address for delivery of mail addressed to any Borrower.

(g) No Liability. Neither Agent nor any Lender shall be, in any event whatsoever, have any liability for any error or omission or delay of any kind occurring in the settlement, collection or payment of any of the Receivables or any instrument received in payment thereof, or for any damage resulting therefrom. Following the occurrence of an Event of Default or Default Agent may, without notice or consent from any Borrower, sue upon or otherwise collect, extend the time of payment of, compromise or settle for cash, credit or upon any terms any of the Receivables or any other securities, instruments or insurance applicable thereto and/or release any obligor thereof. Agent is authorized and empowered to accept following the occurrence of an Event of Default or Default the return of the goods represented by any of the Receivables, without notice to or consent by any Borrower, all without discharging or in any way affecting any Borrower's liability hereunder.

(h) Establishment of a Lockbox Account, Dominion Account. All proceeds of Collateral shall be deposited by Borrowers into either (i) a lockbox account, dominion account or such other "blocked account" ("Blocked Accounts") established at a bank or banks (each such bank, a "Blocked Account Bank") pursuant to an arrangement with such Blocked Account Bank as may be selected by Borrowing Agent and be acceptable to Agent or (ii) depository accounts ("Depository Accounts") established at the Agent for the deposit of such proceeds. Each applicable Borrower, Agent and each Blocked Account Bank shall enter into a deposit account control agreement in form and substance satisfactory to Agent directing such Blocked Account Bank to transfer such funds so deposited to Agent, either to any account maintained by Agent at said Blocked Account Bank or by wire transfer to appropriate account(s) of Agent. All funds deposited in such Blocked Accounts shall immediately become the property of Agent and Borrowing Agent shall obtain the agreement by such Blocked Account Bank to waive any offset rights against the funds so deposited. Neither Agent nor any Lender assumes any responsibility for such blocked account arrangement, including any claim of accord and satisfaction or release with respect to deposits accepted by any Blocked Account Bank thereunder. All deposit accounts and investment accounts of each Borrower and its Subsidiaries are set forth on Schedule 4.15(h).

(i) Adjustments. No Borrower will, without Agent's consent, compromise or adjust any Receivables (or extend the time for payment thereof) or accept any returns of merchandise or grant any additional discounts, allowances or credits thereon except for those compromises, adjustments, returns, discounts, credits and allowances as have been heretofore customary in the Ordinary Course of Business of such Borrower.

4.16. Inventory. To the extent Inventory held for sale or lease has been produced by any Borrower, it has been and will be produced by such Borrower in accordance with the Federal Fair Labor Standards Act of 1938, as amended, and all rules, regulations and orders thereunder.

4.17. Maintenance of Equipment. The Equipment shall be maintained in good operating condition and repair (reasonable wear and tear excepted) and all necessary replacements of and repairs thereto shall be made so that the value and operating efficiency of the Equipment shall be maintained and preserved. No Borrower shall use or operate the Equipment in violation of any law, statute, ordinance, code, rule or regulation. Each Borrower shall have the right to sell Equipment to the extent set forth in Section 4.3 hereof.

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4.18. Exculpation of Liability. Nothing herein contained shall be construed to constitute Agent or any Lender as any Borrower's agent for any purpose whatsoever, nor shall Agent or any Lender be responsible or liable for any shortage, discrepancy, damage, loss or destruction of any part of the Collateral wherever the same may be located and regardless of the cause thereof. Neither Agent nor any Lender, whether by anything herein or in any assignment or otherwise, assume any of any Borrower's obligations under any contract or agreement assigned to Agent or such Lender, and neither Agent nor any Lender shall be responsible in any way for the performance by any Borrower of any of the terms and conditions thereof.

4.19. Environmental Matters.

(a) Borrowers shall ensure that the Real Property and all operations and businesses conducted thereon remains in compliance with all Environmental Laws and they shall not place or permit to be placed any Hazardous Substances on any Real Property except as permitted by Applicable Law or appropriate governmental authorities.

(b) Borrowers shall establish and maintain a system to assure and monitor continued compliance with all applicable Environmental Laws which system shall include periodic reviews of such compliance.

(c) Borrowers shall (i) employ in connection with the use of the Real Property appropriate technology necessary to maintain compliance with any applicable Environmental Laws and (ii) dispose of any and all Hazardous Waste generated at the Real Property only at facilities and with carriers that maintain valid permits under RCRA and any other applicable Environmental Laws. Borrowers shall use their best efforts to obtain certificates of disposal, such as hazardous waste manifest receipts, from all treatment, transport, storage or disposal facilities or operators employed by Borrowers in connection with the transport or disposal of any Hazardous Waste generated at the Real Property.

(d) In the event any Borrower obtains, gives or receives notice of any Release or threat of Release of a reportable quantity of any Hazardous Substances at the Real Property (any such event being hereinafter referred to as a "Hazardous Discharge") or receives any notice of violation, request for information or notification that it is potentially responsible for investigation or cleanup of environmental conditions at the Real Property, demand letter or complaint, order, citation, or other written notice with regard to any Hazardous Discharge or violation of Environmental Laws affecting the Real Property or any Borrower's interest therein (any of the foregoing is referred to herein as an "Environmental Complaint") from any Person, including any state agency responsible in whole or in part for environmental matters in the state in which the Real Property is located or the United States Environmental Protection Agency (any such person or entity hereinafter the "Authority"), then Borrowing Agent shall, within five (5) Business Days, give written notice of same to Agent detailing facts and circumstances of which any Borrower is aware giving rise to the Hazardous Discharge or Environmental Complaint. Such information is to be provided to allow Agent to protect its security interest in and Lien on the Real Property and the Collateral and is not intended to create nor shall it create any obligation upon Agent or any Lender with respect thereto.

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(e) Borrowing Agent shall promptly forward to Agent copies of any request for information, notification of potential liability, demand letter relating to potential responsibility with respect to the investigation or cleanup of Hazardous Substances at any other site owned, operated or used by any Borrower to dispose of Hazardous Substances and shall continue to forward copies of correspondence between any Borrower and the Authority regarding such claims to Agent until the claim is settled. Borrowing Agent shall promptly forward to Agent copies of all documents and reports concerning a Hazardous Discharge at the Real Property that any Borrower is required to file under any Environmental Laws. Such information is to be provided solely to allow Agent to protect Agent's security interest in and Lien on the Real Property and the Collateral.

(f) Borrowers shall respond promptly to any Hazardous Discharge or Environmental Complaint and take all necessary action in order to

safeguard the health of any Person and to avoid subjecting the Collateral or Real Property to any Lien. If any Borrower shall fail to comply promptly to any Hazardous Discharge or Environmental Complaint or any Borrower shall fail to comply with any of the requirements of any Environmental Laws, Agent on behalf of Lenders may, but without the obligation to do so, for the sole purpose of protecting Agent's interest in the Collateral: (i) give such notices or (ii) enter onto the Real Property (or authorize third parties to enter onto the Real Property) and take such actions as Agent (or such third parties as directed by Agent) deem reasonably necessary or advisable, to clean up, remove, mitigate or otherwise deal with any such Hazardous Discharge or Environmental Complaint. All reasonable costs and expenses incurred by Agent and Lenders (or such third parties) in the exercise of any such rights, including any sums paid in connection with any judicial or administrative investigation or proceedings, fines and penalties, together with interest thereon from the date expended at the Default Rate for Domestic Rate Loans constituting Revolving Advances shall be paid upon demand by Borrowers, and until paid shall be added to and become a part of the Obligations secured by the Liens created by the terms of this Agreement or any other agreement between Agent, any Lender and any Borrower.

(g) Promptly upon the written request of Agent from time to time, Borrowers shall provide Agent, at Borrowers' expense, with an environmental site assessment or environmental audit report prepared by an environmental engineering firm acceptable in the reasonable opinion of Agent, to assess with a reasonable degree of certainty the existence of a Hazardous Discharge and the potential costs in connection with abatement, cleanup and removal of any Hazardous Substances found on, under, at or within the Real Property; provided however that so long as Agent does not reasonably believe that a Hazardous Discharge may have occurred or no Default or Event of Default has occurred and is continuing, Borrowers shall not be liable for the cost of more than one such site assessment or audit report during the Term. Any report or investigation of such Hazardous Discharge proposed and acceptable to an appropriate Authority that is charged to oversee the clean-up of such Hazardous Discharge shall be acceptable to Agent. If such estimates, individually or in the aggregate, exceed \$100,000, Agent shall have the right to require Borrowers to post a bond, letter of credit or other security reasonably satisfactory to Agent to secure payment of these costs and expenses.

(h) Borrowers shall defend and indemnify Agent and Lenders and hold Agent, Lenders and their respective employees, agents, directors and officers harmless from and against all loss, liability, damage and expense, claims, costs, fines and penalties, including attorney's

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fees, suffered or incurred by Agent or Lenders under or on account of any Environmental Laws, including the assertion of any Lien thereunder, with respect to any Hazardous Discharge, the presence of any Hazardous Substances affecting the Real Property, whether or not the same originates or emerges from the Real Property or any contiguous real estate, including any loss of value of the Real Property as a result of the foregoing except to the extent such loss, liability, damage and expense is attributable to any Hazardous Discharge resulting from actions on the part of Agent or any Lender. Borrowers' obligations under this Section 4.19 shall arise upon the discovery of the presence of any Hazardous Substances at the Real Property, whether or not any federal, state, or local environmental agency has taken or threatened any action in connection with the presence of any Hazardous Substances. Borrowers' obligation and the indemnifications hereunder shall survive the termination of this Agreement.

(i) For purposes of Section 4.19 and 5.7 (except as otherwise specifically provided), all references to Real Property shall be deemed to include all of each Borrower's right, title and interest in and to its owned and leased premises.

4.20. Financing Statements. Except as respects the financing statements filed by Agent and the financing statements described on Schedule 1.2, no financing statement covering any of the Collateral or any proceeds thereof is on file in any public office.

4.21. Appraisals. Agent may, in its sole discretion, exercised in a commercially reasonable manner, at any time after the Closing Date, engage the services of an independent appraisal firm or firms of reputable standing, satisfactory to Agent, for the purpose of appraising the then current values of Borrowers' assets. Absent the occurrence and continuance of an Event of Default at such time, Agent shall consult with Borrowers as to the identity of any such firm. In the event the value of Borrowers' Inventory, as so determined pursuant to such appraisal, is less than anticipated by Agent or Lenders, such that the Revolving Advances against Eligible Inventory, Eligible Whirlpool Aged Inventory or Eligible Whirlpool Inventory, are in fact in excess of such Advances permitted hereunder, then, promptly upon Agent's demand for same, Borrowers shall make mandatory prepayments of the then outstanding Revolving Advances made against such Eligible Inventory, Eligible Whirlpool Aged Inventory or Eligible Whirlpool Inventory, as applicable, so as to eliminate the excess Advances.

4.22. Canadian Attachment. The security interests granted herein shall not attach to (i) any consumer goods of a Canadian Borrower, or (ii) the last day of any real property lease, or any agreement to lease, to which a Canadian Borrower is now or becomes a party as lessee, provided that any such last day shall be held in trust by a Canadian Borrower for the Agent and, on the exercise by the Agent of its rights and remedies hereunder, shall be assigned by a Canadian Borrower as directed by the Agent. Notwithstanding Section 4.1 hereof, the Agent shall only have a security interest in, and not a present assignment of, any Canadian trademarks forming part of the Collateral

V. REPRESENTATIONS AND WARRANTIES.

Each Borrower represents and warrants as follows:

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5.1. Authority. Each Borrower has full power, authority and legal right to enter into this Agreement and the Other Documents and to perform all its respective Obligations hereunder and thereunder. This Agreement and the Other Documents have been duly executed and delivered by each Borrower, and this Agreement and the Other Documents constitute the legal, valid and binding obligation of such Borrower enforceable in accordance with their terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally. The execution, delivery and performance of this Agreement and of the Other Documents (a) are within such Borrower's corporate powers, have been duly authorized by all necessary corporate action, are not in contravention of law or the terms of such Borrower's by-laws, certificate of incorporation or other applicable documents relating to such Borrower's formation or to the conduct of such Borrower's business or of any material agreement or undertaking to which such Borrower is a party or by which such Borrower is bound, (b) will not conflict with or violate any law or regulation, or any judgment, order or decree of any Governmental Body, (c) will not require the Consent of any Governmental Body, any party to a Material Contract or any other Person, except those Consents set forth on Schedule 5.1 hereto, all of which will have been duly obtained, made or compiled prior to the Closing Date and which are in full force and effect and (d) will not conflict with, nor result in any breach in any of the provisions of or constitute a default under or result in the creation of any Lien except Permitted Encumbrances upon any asset of such Borrower under the provisions of any agreement, charter document, instrument, by-law or other instrument to which such Borrower is a party or by which it or its property is a party or by which it may be bound.

5.2. Formation and Qualification.

(a) Each Borrower is duly incorporated and in good standing under the laws of the state or jurisdiction listed on Schedule 5.2(a) and is qualified to do business and is in good standing in the states or jurisdiction listed on Schedule 5.2(a) which constitute all states or jurisdiction in which qualification and good standing are necessary for such Borrower to conduct its business and own its property and where the failure to so qualify could reasonably be expected to have a Material Adverse Effect. Each Borrower has delivered to Agent true and complete copies of its certificate of incorporation and by-laws and will promptly notify Agent of any amendment or changes thereto.

(b) The only Subsidiaries of each Borrower are listed on Schedule 5.2(b).

5.3. Survival of Representations and Warranties. All representations and warranties of such Borrower contained in this Agreement and the Other Documents shall be true at the time of such Borrower's execution of this Agreement and the Other Documents, and shall survive the execution, delivery and acceptance thereof by the parties thereto and the closing of the transactions described therein or related thereto.

5.4. Tax Returns. Each Borrower's federal tax identification number is set forth on Schedule 5.4. Each Borrower has filed all federal, Canadian, provincial, state and local tax returns and other reports each is required by law to file and has paid all taxes, assessments, fees and other governmental charges that are due and payable. Federal, state and local income tax returns of each Borrower have been examined and reported upon by the appropriate taxing authority or closed by applicable statute and satisfied for all fiscal years prior to and including

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the fiscal year ending on or around December 31, 2006. The provision for taxes on the books of each Borrower is adequate for all years not closed by applicable statutes, and for its current fiscal year, and no Borrower has any knowledge of any deficiency or additional assessment in connection therewith not provided for on its books.

5.5. Financial Statements.

(a) The pro forma balance sheet of Borrowers on a Consolidated Basis (the "Pro Forma Balance Sheet") furnished to Agent on the Closing Date reflects the consummation of the transactions contemplated under this Agreement (collectively, the "Transactions") and is accurate, complete and correct and fairly reflects the financial condition of Borrowers on a Consolidated Basis as of the Closing Date after giving effect to the Transactions, and has been prepared in accordance with GAAP, consistently applied. The Pro Forma Balance Sheet has been certified as accurate, complete and correct in all material respects by the President and Chief Financial Officer of Borrowing Agent. All financial statements referred to in this subsection 5.5(a), including the related schedules and notes thereto, have been prepared, in accordance with GAAP, except as may be disclosed in such financial statements.

(b) The twelve-month cash flow projections of Borrowers on a Consolidated Basis and their projected balance sheets as of the Closing Date, copies of which are annexed hereto as Exhibit 5.5(b) (the "Projections") were prepared by the Chief Financial Officer of Borrowing Agent, are based on underlying assumptions which provide a reasonable basis for the projections contained therein and reflect Borrowers' judgment based on present circumstances of the most likely set of conditions and course of action for the projected period. The cash flow Projections together with the Pro Forma Balance Sheet, are referred to as the "Pro Forma Financial Statements".

(c) The consolidated and consolidating balance sheets of Borrowers, and such other Persons described therein as of October 31, 2010, and the related statements of income, changes in stockholder's equity, and changes in cash flow for the period ended on such date, all accompanied by reports thereon containing opinions without qualification by independent certified public accountants, copies of which have been delivered to Agent, have been prepared in accordance with GAAP, consistently applied (except for changes in application in which such accountants concur and present fairly the financial position of Borrowers at such date and the results of their operations for such period. Since October 31, 2010 there has been no change in the condition, financial or otherwise, of Borrowers as shown on the consolidated balance sheet as of such date and no change in the aggregate value of machinery, equipment and Real Property owned by Borrowers, except changes in the Ordinary Course of Business, none of which individually or in the aggregate has been materially adverse.

5.6. Entity Names. No Borrower has been known by any other corporate name in the past five years and does not sell Inventory under any other name except as set forth on Schedule 5.6, nor has any Borrower been the surviving corporation or company of a merger or consolidation or acquired all or substantially all of the assets of any Person during the preceding five (5) years.

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5.7. O.S.H.A. and Environmental Compliance.

(a) Each Borrower has duly complied with, and its facilities, business, assets, property, leaseholds, Real Property and Equipment are in compliance in all material respects with, the provisions of the Federal Occupational Safety and Health Act, the Environmental Protection Act, RCRA and all other Environmental Laws; there have been no outstanding citations, notices or orders of non-compliance issued to any Borrower or relating to its business, assets, property, leaseholds or Equipment under any such laws, rules or regulations.

(b) Each Borrower has been issued all required federal, state, Canadian, provincial, and local licenses, certificates or permits relating to all applicable Environmental Laws.

(c) (i) There are no visible signs of releases, spills, discharges, leaks or disposal (collectively referred to as "Releases") of Hazardous Substances at, upon, under or within any Real Property; (ii) Borrowers have never owned or used, and to their knowledge there are no underground storage tanks or polychlorinated biphenyls on, the Real Property; (iii) Borrowers have never used the Real Property as a treatment, storage or disposal facility of Hazardous Waste and to their knowledge the Real Property has never been used as a treatment, storage or disposal facility of Hazardous Waste; and (iv) Borrowers have never released or used, and to their knowledge, no Hazardous Substances are present on the Real Property including any premises leased by any Borrower, excepting such quantities as are handled in accordance with all applicable manufacturer's instructions and governmental regulations and in proper storage containers and as are necessary for the operation of the commercial business of any Borrower or of its tenants.

5.8. Solvency; No Litigation, Violation, Indebtedness or Default; ERISA Compliance.

(a) Each Borrower is solvent, able to pay its debts as they mature, has capital sufficient to carry on its business and all businesses in which it is about to engage, and (i) as of the Closing Date, the fair present saleable value of its assets, calculated on a going concern basis, is in excess of the amount of its liabilities and (ii) subsequent to the Closing Date, the fair saleable value of its assets (calculated on a going concern basis) will be in excess of the

amount of its liabilities.

(b) Except as disclosed in Schedule 5.8(b), no Borrower has (i) any pending or threatened litigation, arbitration, actions or proceedings which involve the possibility of having a Material Adverse Effect, and (ii) any liabilities or indebtedness for borrowed money other than the Obligations.

(c) No Borrower is in violation of any applicable statute, law, rule, regulation or ordinance in any respect which could reasonably be expected to have a Material Adverse Effect, nor is any Borrower in violation of any order of any court, Governmental Body or arbitration board or tribunal.

(d) No Borrower nor any member of the Controlled Group maintains or is required to contribute to any Plan other than those listed on Schedule 5.8(d) hereto. (i) No Plan has incurred any "accumulated funding deficiency," as defined in Section 302(a)(2) of ERISA

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and Section 412(a) of the Code, whether or not waived, each Borrower and each member of the Controlled Group has met all applicable minimum funding requirements under Section 302 of ERISA and Section 412 of the Code in respect of each Plan, and each Plan is in compliance with Sections 412, 430 and 436 of the Code and Sections 206(g), 302 and 303 of ERISA, without regard to waivers and variances; (ii) each Plan which is intended to be a qualified plan under Section 401(a) of the Code as currently in effect has been determined by the Internal Revenue Service to be qualified under Section 401(a) of the Code and the trust related thereto is exempt from federal income tax under Section 501(a) of the Code; (iii) neither any Borrower nor any member of the Controlled Group has incurred any liability to the PBGC other than for the payment of premiums, and there are no premium payments which have become due which are unpaid; (iv) no Plan has been terminated by the plan administrator thereof nor by the PBGC, and there is no occurrence which would cause the PBGC to institute proceedings under Title IV of ERISA to terminate any Plan; (v) at this time, the current value of the assets of each Plan exceeds the present value of the accrued benefits and other liabilities of such Plan and neither any Borrower nor any member of the Controlled Group knows of any facts or circumstances which would materially change the value of such assets and accrued benefits and other liabilities; (vi) neither any Borrower nor any member of the Controlled Group has breached any of the responsibilities, obligations or duties imposed on it by ERISA with respect to any Plan; (vii) neither any Borrower nor any member of a Controlled Group has incurred any liability for any excise tax arising under Section 4971, 4972 or 4980B of the Code, and no fact exists which could give rise to any such liability; (viii) neither any Borrower nor any member of the Controlled Group nor any fiduciary of, nor any trustee to, any Plan, has engaged in a "prohibited transaction" described in Section 406 of the ERISA or Section 4975 of the Code nor taken any action which would constitute or result in a Termination Event with respect to any such Plan which is subject to ERISA; (ix) each Borrower and each member of the Controlled Group has made all contributions due and payable with respect to each Plan; (x) there exists no event described in Section 4043(b) of ERISA, for which the thirty (30) day notice period has not been waived; (xi) neither any Borrower nor any member of the Controlled Group has any fiduciary responsibility for investments with respect to any plan existing for the benefit of persons other than employees or former employees of any Borrower or any member of the Controlled Group; (xii) neither any Borrower nor any member of the Controlled Group maintains or is required to contribute to any Plan which provides health, accident or life insurance benefits to former employees, their spouses or dependents, other than in accordance with Section 4980B of the Code; (xiii) neither any Borrower nor any member of the Controlled Group has withdrawn, completely or partially, within the meaning of Section 4203 or 4205 of ERISA, from any Multiemployer Plan so as to incur liability under the Multiemployer Pension Plan Amendments Act of 1980 and there exists no fact which would reasonably be expected to result in any such liability; and (xiv) no Plan fiduciary (as defined in Section 3(21) of ERISA) has any liability for breach of fiduciary duty or for any failure in connection with the administration or investment of the assets of a Plan.

5.9. Patents, Trademarks, Copyrights and Licenses. All patents, patent applications, trademarks, trademark applications, service marks, service mark applications, copyrights, copyright applications, design rights, tradenames, assumed names, trade secrets and licenses owned or utilized by any Borrower are set forth on Schedule 5.9, are valid and have been duly registered or filed with all appropriate Governmental Bodies and constitute all of the intellectual property rights which are necessary for the operation of its business; there is no objection to or

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pending challenge to the validity of any such patent, trademark, copyright, design rights, tradename, trade secret or license and no Borrower is aware of any grounds for any challenge, except as set forth in Schedule 5.9 hereto. Each patent, patent application, patent license, trademark, trademark application, trademark license, service mark, service mark application, service mark license, design rights, copyright, copyright application and copyright license owned or held by any Borrower and all trade secrets used by any Borrower consist of original material or property developed by such Borrower or was lawfully acquired by such Borrower from the proper and lawful owner thereof. Each of such items has been maintained so as to preserve the value thereof from the date of creation or acquisition thereof. With respect to all software used by any Borrower, such Borrower is in possession of all source and object codes related to each piece of software or is the beneficiary of a source code escrow agreement, each such source code escrow agreement being listed on Schedule 5.9 hereto.

5.10. Licenses and Permits. Except as set forth in Schedule 5.10, each Borrower (a) is in compliance with and (b) has procured and is now in possession of, all material licenses or permits required by any applicable federal, state, provincial or local law, rule or regulation for the operation of its business in each jurisdiction wherein it is now conducting or proposes to conduct business and where the failure to procure such licenses or permits could have a Material Adverse Effect.

5.11. Default of Indebtedness. No Borrower is in default in the payment of the principal of or interest on any Indebtedness or under any instrument or agreement under or subject to which any Indebtedness has been issued and no event has occurred under the provisions of any such instrument or agreement which with or without the lapse of time or the giving of notice, or both, constitutes or would constitute an event of default thereunder.

5.12. No Default. No Borrower is in default in the payment or performance of any of its contractual obligations and no Default has occurred.

5.13. No Burdensome Restrictions. No Borrower is party to any contract or agreement the performance of which could have a Material Adverse Effect. Each Borrower has heretofore delivered to Agent true and complete copies of all Material Contracts to which it is a party or to which it or any of its properties is subject. No Borrower has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien which is not a Permitted Encumbrance.

5.14. No Labor Disputes. No Borrower is involved in any labor dispute; there are no strikes or walkouts or union organization of any Borrower's employees threatened or in existence and no labor contract is scheduled to expire during the Term other than as set forth on Schedule 5.14 hereto.

5.15. Margin Regulations. No Borrower is engaged, nor will it engage, principally or as one of its important activities, in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. No part of the proceeds of any Advance will be

used for "purchasing" or "carrying" "margin stock" as defined in Regulation U of such Board of Governors.

5.16. Investment Company Act. No Borrower is an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, nor is it controlled by such a company.

5.17. Disclosure. No representation or warranty made by any Borrower in this Agreement or in any financial statement, report, certificate or any other document furnished in connection herewith contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein or therein not misleading. There is no fact known to any Borrower or which reasonably should be known to such Borrower which such Borrower has not disclosed to Agent in writing with respect to the transactions contemplated by this Agreement which could reasonably be expected to have a Material Adverse Effect.

5.18. Reserved.

5.19. Swaps. No Borrower is a party to, nor will it be a party to, any swap agreement whereby such Borrower has agreed or will agree to swap interest rates or currencies unless same provides that damages upon termination following an event of default thereunder are payable on an unlimited "two-way basis" without regard to fault on the part of either party.

5.20. Conflicting Agreements. No provision of any mortgage, indenture, contract, agreement, judgment, decree or order binding on any Borrower or affecting the Collateral conflicts with, or requires any Consent which has not already been obtained to, or would in any way prevent the execution, delivery or performance of, the terms of this Agreement or the Other Documents.

5.21. Application of Certain Laws and Regulations. Neither any Borrower nor any Affiliate of any Borrower is subject to any law, statute, rule or regulation which regulates the incurrence of any Indebtedness, including laws, statutes, rules or regulations relative to common or interstate carriers or to the sale of electricity, gas, steam, water, telephone, telegraph or other public utility services.

5.22. Business and Property of Borrowers. Upon and after the Closing Date, Borrowers do not propose to engage in any business other than retail sales of special-buy household appliances and recycler of major household appliances for the energy conservation programs of electric utilities and activities necessary to conduct the foregoing. On the Closing Date, each Borrower will own all the property and possess all of the rights and Consents necessary for the conduct of the business of such Borrower.

5.23. Section 20 Subsidiaries. Borrowers do not intend to use and shall not use any portion of the proceeds of the Advances, directly or indirectly, to purchase during the underwriting period, or for 30 days thereafter, Ineligible Securities being underwritten by a Section 20 Subsidiary.

5.24. Anti-Terrorism Laws.

(a) General. Neither any Borrower nor any Affiliate of any Borrower is in violation of any Anti-Terrorism Law or engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

(b) Executive Order No. 13224. Neither any Borrower nor any Affiliate of any Borrower or their respective agents acting or benefiting in any capacity in connection with the Advances or other transactions hereunder, is any of the following (each a "Blocked Person"):

(i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(ii) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(iii) a Person or entity with which any Lender is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person or entity that commits, threatens or conspires to commit or supports "terrorism" as defined in the Executive Order No. 13224;

(v) a Person or entity that is named as a "specially designated national" on the most current list published by the U.S. Treasury Department Office of Foreign Asset Control at its official website or any replacement website or other replacement official publication of such list, or

(vi) a Person or entity who is affiliated or associated with a Person or entity listed above.

Neither any Borrower nor to the knowledge of any Borrower, any of its agents acting in any capacity in connection with the Advances or other transactions hereunder (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, or (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

5.25. Trading with the Enemy. No Borrower has engaged, nor does it intend to engage, in any business or activity prohibited by the Trading with the Enemy Act.

5.26. Federal Securities Laws. Other than ARCA, no Borrower no any Subsidiary (i) is required to file periodic reports under the Exchange Act, (ii) has any securities registered under the Exchange Act or (iii) has filed a registration statement that has not yet become effective under the Securities Act.

5.27. Equity Interests. The authorized and outstanding Equity Interests of each Borrower is as set forth on Schedule 5.27 hereto. All of the Equity Interests of each Borrower has been duly and validly authorized and issued and is fully paid and non-assessable and has been sold and delivered to the holders hereof in compliance with, or under valid exemption from, all federal and state laws and the rules and regulations of each Governmental Body governing the sale and delivery of securities. Except for the rights and obligations set forth on Schedule 5.27, there are no subscriptions, warrants, options, calls, commitments, rights or agreement by which any Borrower or any of the shareholders of any Borrower is bound relating to the issuance, transfer, voting or redemption of shares of its Equity Interests or any pre-emptive rights held by any Person with respect to the Equity Interests of Borrowers. Except as set forth on Schedule 5.27, Borrowers have not issued any securities convertible into or exchangeable for shares of its Equity Interests or any options, warrants or other rights to acquire such shares or securities convertible into or exchangeable for such shares.

5.28. Commercial Tort Claims. No Borrower is a party to any commercial tort claims except as set forth on Schedule 5.28 hereto.

5.29. Letter of Credit Rights. As of the Closing Date, no Borrower has any letter of credit rights, except as set forth on Schedule 5.29 hereto.

5.30. Material Contracts. Schedule 5.30 sets forth all Material Contracts of the Borrowers. All Material Contracts are in full force and effect and no material defaults currently exist thereunder.

VI. AFFIRMATIVE COVENANTS.

Each Borrower shall, until payment in full of the Obligations and termination of this Agreement:

6.1. Payment of Fees. Pay to Agent on demand all usual and customary fees and expenses which Agent incurs in connection with (a) the forwarding of Advance proceeds and (b) the establishment and maintenance of any Blocked Accounts or Depository Accounts as provided for in Section 4.15(h). Agent may, without making demand, charge Borrowers' Account for all such fees and expenses.

6.2. Conduct of Business and Maintenance of Existence and Assets. (a) Conduct continuously and operate actively its business according to good business practices and maintain all of its properties useful or necessary in its business in good working order and condition (reasonable wear and tear excepted and except as may be disposed of in accordance with the terms of this Agreement), including all licenses, patents, copyrights, design rights, tradenames, trade secrets and trademarks and take all actions necessary to enforce and protect the validity of any intellectual property right or other right included in the Collateral; (b) keep in full force and effect its existence and comply in all material respects with the laws and regulations governing the conduct of its business where the failure to do so could reasonably be expected to have a Material Adverse Effect; and (c) make all such reports and pay all such franchise and other taxes and license fees and do all such other acts and things as may be lawfully required to maintain its rights, licenses, leases, powers and franchises under the laws of the United States, Canada or any

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political subdivisions thereof where the failure to do so could reasonably be expected to have a Material Adverse Effect.

6.3. Violations. Promptly notify Agent in writing of any violation of any law, statute, regulation or ordinance of any Governmental Body, or of any agency thereof, applicable to any Borrower which could reasonably be expected to have a Material Adverse Effect.

6.4. Government Receivables. Take all steps necessary to protect Agent's interest in the Collateral under the Federal Assignment of Claims Act, the Financial Administration Act (Canada), the Uniform Commercial Code and all other applicable state or local statutes or ordinances and deliver to Agent appropriately endorsed, any instrument or chattel paper connected with any Receivable arising out of contracts between any Borrower and the United States, any state, Canada, any province or any department, agency or instrumentality of any of them.

6.5. Fixed Charge Coverage Ratio. Commencing with the fiscal quarter ending March 31, 2011, cause to be maintained as of the end of each fiscal quarter, a Fixed Charge Coverage Ratio of not less than 1.10 to 1.00, measured on a trailing twelve (12) month basis.

6.6. Execution of Supplemental Instruments. Execute and deliver to Agent from time to time, upon demand, such supplemental agreements, statements, assignments and transfers, or instructions or documents relating to the Collateral, and such other instruments as Agent may request, in order that the full intent of this Agreement may be carried into effect.

6.7. Payment of Indebtedness. Pay, discharge or otherwise satisfy at or before maturity (subject, where applicable, to specified grace periods and, in the case of the trade payables, to normal payment practices) all its obligations and liabilities of whatever nature, except when the failure to do so could not reasonably be expected to have a Material Adverse Effect or when the amount or validity thereof is currently being Properly Contested, subject at all times to any applicable subordination arrangement in favor of Lenders.

6.8. Standards of Financial Statements. Cause all financial statements referred to in Sections 9.7, 9.8, 9.9, 9.10, 9.11, 9.12, and 9.13 as to which GAAP is applicable to be complete and correct in all material respects (subject, in the case of interim financial statements, to normal year-end audit adjustments) and to be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected therein (except as concurred in by such reporting accountants or officer, as the case may be, and disclosed therein).

6.9. Federal Securities Laws. Promptly notify Agent in writing if any Borrower other than ARCA (i) is required to file periodic reports under the Exchange Act, (ii) registers any securities under the Exchange Act or (iii) files a registration statement under the Securities Act.

6.10. Post Closing Conditions.

(a) Within ninety (90) days after the Closing Date, Agent shall have received an inventory appraisal performed by an appraiser satisfactory to Agent in its reasonable discretion;

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(b) Borrowers shall deliver to Agent, within ninety (90) days of the Closing Date, Lien Waiver Agreements, in form and substance satisfactory to Agent, for the Collateral located at Real Property leased by the Borrowers, each executed by the owner of such real property in favor of Agent; provided however, that failure to obtain such Lien Waiver Agreement shall not be deemed an Event of Default hereunder, provided further that, to the extent such Lien Waiver Agreement is not delivered, Borrowers acknowledge that Agent shall have the right to impose a reserve under the Formula Amount in an amount equal to one month's rent due under the lease for such Collateral location or such greater amount as Agent in its reasonable discretion exercised in good faith determines is necessary to protect its interest in the Collateral.

(c) Within sixty (60) days after the Closing Date, Borrowers will close their lockbox and deposit accounts located at Bremer Bank and direct all Customers to remit payment upon Receivables to a lockbox maintained at Agent.

(d) Within sixty (60) days after the Closing Date, Borrowers shall deliver to Agent, deposit account control agreements with the applicable depository bank, in form and substance satisfactory to Agent with respect to the deposit accounts listed on Schedule 4.15(h), as required by Agent.

(e) Within sixty (60) days after the Closing Date, Borrowers shall obtain a small business loan (the "SBA Loan"), on terms and conditions and with a financial institution reasonably acceptable to Agent, and upon the closing of such SBA Loan, Borrowers shall pay to Agent, or cause the AAP Joint Venture to pay to Agent, an amount not less than \$2,100,000 from the proceeds of such SBA Loan, to be applied to the Advances in such order as Agent may determine, subject to Borrowers' ability to reborrow Revolving Advances in accordance with the terms hereof.

(f) Within sixty (60) days after the Closing Date, Borrower shall have caused the appropriate party on behalf of the Tax Collector of Los Angeles County, California to execute and record a lien release ("Release") in the official land records of Los Angeles County, California. The Release shall be in form and substance sufficient to satisfy and release of record that certain lien for unsecured property taxes in the amount of \$4,580.73 (plus all accrued interest and penalties), which lien is evidenced by a Certificate of Tax Lien in favor of the Tax Collector of Los Angeles County recorded on November, 25, 2002 as Instrument No. 20022843226. Borrower shall deliver to Agent a copy of the recorded Release within said sixty (60) day time period.

(g) Within thirty (30) days after the Closing Date, Borrowers shall deliver to Agent, evidence of termination of the Personal Property Security Act (Ontario) filing #656494083-20090923 filed against ARCA Canada by De Lage Landen Financial Services Canada Inc.

VII. NEGATIVE COVENANTS.

No Borrower shall, until satisfaction in full of the Obligations and termination of this Agreement:

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7.1. Merger, Consolidation, Acquisition and Sale of Assets.

(a) Enter into any merger, consolidation or other reorganization with or into any other Person or acquire all or a substantial portion of the assets or Equity Interests of any Person or permit any other Person to consolidate with or merge with it.

(b) Sell, lease, transfer or otherwise dispose of any of its properties or assets, except (i) dispositions of Inventory and Equipment to the extent expressly permitted by Section 4.3 and (ii) any other sales or dispositions expressly permitted by this Agreement.

7.2. Creation of Liens. Create or suffer to exist any Lien or transfer upon or against any of its property or assets now owned or hereafter acquired, except Permitted Encumbrances.

7.3. Guarantees. Become liable upon the obligations or liabilities of any Person by assumption, endorsement or guaranty thereof or otherwise (other than to Lenders) except (a) as disclosed on Schedule 7.3, (b) the endorsement of checks in the Ordinary Course of Business, (c) guarantees of the AAP Joint Venture Term Loan, (d) guarantees of Indebtedness of the AAP Joint Venture arising under the SBA Loan so long as such guarantees and any Liens granted in connection therewith are subject to an Intercreditor Agreement, in form and substance reasonably satisfactory to Agent.

7.4. Investments. Purchase or acquire obligations or Equity Interests of, or any other interest in, any Person, except (a) obligations issued or guaranteed by the United States of America or any agency thereof, (b) commercial paper with maturities of not more than 180 days and a published rating of not less than A-1 or P-1 (or the equivalent rating), (c) certificates of time deposit and bankers' acceptances having maturities of not more than 180 days and repurchase agreements backed by United States government securities of a commercial bank if (i) such bank has a combined capital and surplus of at least \$500,000,000, or (ii) its debt obligations, or those of a holding company of which it is a Subsidiary, are rated not less than A (or the equivalent rating) by a nationally recognized investment rating agency, (d) U.S. money market funds that invest solely in obligations issued or guaranteed by the United States of America or an agency thereof, and (e) investments in the AAP Joint Venture existing on the Closing Date.

7.5. Loans. Make advances, loans or extensions of credit to any Person, including any Parent, Subsidiary or Affiliate except (i) with respect to the extension of commercial trade credit in connection with the sale of Inventory in the Ordinary Course of Business, (ii) Borrowers may make short term loans (with a term not greater than six months) to the AAP Joint Venture until June 30, 2011 in an amount not to exceed \$800,000 at any time so long as (x) no Default or Event of Default has occurred and is continuing or would occur as a result of such loan, and (y) Borrowers' Undrawn Availability is not less than \$1,500,000 at the time of or after giving effect to the making of such loan; and (iii) Borrowers may make loans to the AAP Joint Venture after June 30, 2011 in an amount not to exceed \$300,000 at any time.

7.6. Capital Expenditures. Contract for, purchase or make any expenditure or commitments for Capital Expenditures in any fiscal year in an aggregate amount for all Borrowers in excess of \$800,000.

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7.7. Dividends. Declare, pay or make any dividend or distribution on any Equity Interests of any Borrower (other than dividends or distribution payable in its stock, or split-ups or reclassifications of its stock) or apply any of its funds, property or assets to the purchase, redemption or other retirement of any Equity Interest, or of any options to purchase or acquire any Equity Interest of any Borrower.

7.8. Indebtedness. Create, incur, assume or suffer to exist any Indebtedness (exclusive of trade debt) except in respect of (i) Indebtedness to Lenders; (ii) Indebtedness incurred for Capital Expenditures permitted under Section 7.6 hereof, (iii) Indebtedness under the SBA Loan; and (iv) Indebtedness

7.9. Nature of Business. Substantially change the nature of the business in which it is presently engaged, nor except as specifically permitted hereby purchase or invest, directly or indirectly, in any assets or property other than in the Ordinary Course of Business for assets or property which are useful in, necessary for and are to be used in its business as presently conducted.

7.10. Transactions with Affiliates. Directly or indirectly, purchase, acquire or lease any property from, or sell, transfer or lease any property to, or otherwise enter into any transaction or deal with, any Affiliate, except transactions disclosed to the Agent, which are in the Ordinary Course of Business, on an arm's-length basis on terms and conditions no less favorable than terms and conditions which would have been obtainable from a Person other than an Affiliate.

7.11. Leases. Enter as lessee into any lease arrangement for real or personal property (unless capitalized and permitted under Section 7.6 hereof) if after giving effect thereto, aggregate annual rental payments for all leased property would exceed \$4,600,000 in any one fiscal year in the aggregate for all Borrowers.

7.12. Subsidiaries.

(a) Form any Subsidiary.

(b) Enter into any partnership, joint venture or similar arrangement (other than the AAP Joint Venture).

7.13. Fiscal Year and Accounting Changes. Change its fiscal year from the fiscal year in effect on the Closing Date or make any significant change (i) in accounting treatment and reporting practices except as required by GAAP or (ii) in tax reporting treatment except as required by law.

7.14. Pledge of Credit. Now or hereafter pledge Agent's or any Lender's credit on any purchases or for any purpose whatsoever or use any portion of any Advance in or for any business other than such Borrower's business as conducted on the date of this Agreement.

7.15. Amendment of Articles of Incorporation, By-Laws, Certificate of Formation, or Operating Agreement. Amend, modify or waive any term or material provision of its Articles of Incorporation, By-Laws, Certificate of Formation, Operating Agreement or other governing documents unless required by law.

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7.16. Compliance with ERISA. (i) (x) Maintain, or permit any member of the Controlled Group to maintain, or (y) become obligated to contribute, or permit any member of the Controlled Group to become obligated to contribute, to any Plan, other than those Plans disclosed on Schedule 5.8(d), (ii) engage, or permit any member of the Controlled Group to engage, in any non-exempt "prohibited transaction", as that term is defined in Section 406 of ERISA or Section 4975 of the Code, (iii) incur, or permit any Plan to incur, any "accumulated funding deficiency", as that term is defined in Section 302 of ERISA or Section 412 of the Code, (iv) terminate, or permit any member of the Controlled Group to terminate, any Plan where such event could result in any liability of any Borrower or any member of the Controlled Group or the imposition of a lien on the property of any Borrower or any member of the Controlled Group pursuant to Section 4068 of ERISA, (v) assume, or permit any member of the Controlled Group to assume, any obligation to contribute to any Multiemployer Plan not disclosed on Schedule 5.8(d), (vi) incur, or permit any member of the Controlled Group to incur, any withdrawal liability to any Multiemployer Plan; (vii) fail promptly to notify Agent of the occurrence of any Termination Event, (viii) fail to comply, or permit a member of the Controlled Group to fail to comply, with the requirements of ERISA or the Code or other Applicable Laws in respect of any Plan, (ix) fail to meet, or permit any member of the Controlled Group to fail to meet, all minimum funding requirements under ERISA and the Code, without regard to any waivers or variances, or postpone or delay or allow any member of the Controlled Group to postpone or delay any funding requirement with respect of any Plan, or (x) cause, or permit any member of the Controlled Group to cause, a representation or warranty in Section 5.8(d) to cease to be true and correct.

7.17. Prepayment of Indebtedness. At any time, directly or indirectly, prepay any Indebtedness (other than to Lenders), or repurchase, redeem, retire or otherwise acquire any Indebtedness of any Borrower.

7.18. Anti-Terrorism Laws. No Borrower shall, until satisfaction in full of the Obligations and termination of this Agreement, nor shall it permit any Affiliate or agent to:

(a) Conduct any business or engage in any transaction or dealing with any Blocked Person, including the making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person.

(b) Deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

(c) Engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in the Executive Order No. 13224, the USA PATRIOT Act or any other Anti-Terrorism Law. Borrower shall deliver to Lenders any certification or other evidence requested from time to time by any Lender in its sole discretion, confirming Borrower's compliance with this Section.

7.19. Membership/Partnership Interests. Elect to treat or permit any of its Subsidiaries to (x) treat its limited liability company membership interests or partnership interests, as the case may be, as securities as contemplated by the definition of "security" in Section 8-102(15) and by

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Section 8-103 of Article 8 of Uniform Commercial Code or (y) certificate its limited liability company membership interests or partnership interests, as the case may be.

7.20. Trading with the Enemy Act. Engage in any business or activity in violation of the Trading with the Enemy Act.

VIII. CONDITIONS PRECEDENT.

8.1. Conditions to Initial Advances. The agreement of Lenders to make the initial Advances requested to be made on the Closing Date is subject to the satisfaction, or waiver by Agent, immediately prior to or concurrently with the making of such Advances, of the following conditions precedent:

(a) Note. Agent shall have received the Notes duly executed and delivered by an authorized officer of each Borrower;

(b) Filings, Registrations and Recordings. Each document (including any Uniform Commercial Code financing statement) required by this Agreement, any related agreement or under law or reasonably requested by the Agent to be filed, registered or recorded in order to create, in favor of Agent, a perfected security interest in or lien upon the Collateral shall have been properly filed, registered or recorded in each jurisdiction in which the filing, registration or recordation thereof is so required or requested, and Agent shall have received an acknowledgment copy, or other evidence satisfactory to it, of each such filing, registration or recordation and satisfactory evidence of the payment of any necessary fee, tax or expense relating thereto;

(c) Leasehold Agreements. Agent shall have received landlord, mortgagee or warehouseman agreements satisfactory to Agent with respect to all premises leased by Borrowers at which Inventory and books and records are located;

(d) Pledge and Other Documents. Agent shall have received (i) the Pledge Agreement, and (ii) the executed Other Documents, all in form and substance satisfactory to Agent;

(e) Mortgage and Surveys. Agent shall have received in form and substance satisfactory to Lenders (i) an executed Mortgage and (ii) surveys;

(f) Title Insurance. Agent shall have received fully paid mortgagee title insurance policies (or binding commitments to issue title insurance policies, marked to Agent's satisfaction to evidence the form of such policies to be delivered with respect to the Mortgage), in standard ALTA form, issued by a title insurance company satisfactory to Agent, each in an amount equal to not less than the fair market value of the Real Property subject to the Mortgage, insuring the Mortgage to create a valid Lien on the Real Property with no exceptions which Agent shall not have approved in writing and no survey exceptions;

(g) Environmental Reports. Agent shall have received all environmental studies and reports prepared by independent environmental engineering firms with respect to all Real Property owned;

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(h) Financial Condition Certificates. Agent shall have received an executed Financial Condition Certificate in the form of Exhibit 8.1(h).

(i) Closing Certificate. Agent shall have received a closing certificate signed by the Chief Financial Officer of Borrowing Agent dated as of the date hereof, stating that (i) all representations and warranties set forth in this Agreement and the Other Documents are true and correct on and as of such date, and (ii) on such date no Default or Event of Default has occurred or is continuing;

(j) Borrowing Base. Agent shall have received evidence from Borrowers that the aggregate amount of Eligible Receivables, Eligible Unbilled Receivables, Eligible Credit Card Receivables Amount, Eligible Whirlpool Inventory, Eligible Whirlpool Aged Inventory and Eligible Inventory is sufficient in value and amount to support Advances in the amount requested by Borrowers on the Closing Date;

(k) Blocked Accounts. Agent shall have received duly executed agreements establishing the Blocked Accounts or Depository Accounts with financial institutions acceptable to Agent for the collection or servicing of the Receivables and proceeds of the Collateral;

(l) Proceedings of Borrowers. Agent shall have received a copy of the resolutions in form and substance reasonably satisfactory to Agent, of the Board of Directors of each Borrower authorizing (i) the execution, delivery and performance of this Agreement, the Notes, the Mortgage, and any related agreements, and (ii) the granting by each Borrower of the security interests in and liens upon the Collateral in each case certified by the Secretary, or an Assistant Secretary of each Borrower as of the Closing Date; and, such certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded as of the date of such certificate;

(m) Incumbency Certificates of Borrowers. Agent shall have received a certificate of the Secretary or an Assistant Secretary of each Borrower, dated the Closing Date, as to the incumbency and signature of the officers of each Borrower and Guarantor, as applicable, executing this Agreement, the Other Documents and any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of such Secretary or Assistant Secretary;

(n) Certificates. Agent shall have received a copy of the Articles or Certificate of Incorporation of each Borrower, and all amendments thereto, certified by the Secretary of State or other appropriate official of its jurisdiction of incorporation together with copies of the By-Laws of each Borrower and all agreements of each Borrower's shareholders certified as accurate and complete by the Secretary of each Borrower;

(o) Good Standing Certificates. Agent shall have received good standing certificates for each Borrower dated not more than 20 days prior to the Closing Date, issued by the Secretary of State or other appropriate official of each Borrower's jurisdiction of incorporation and each jurisdiction where the conduct of each Borrower's and each Guarantor's business activities or the ownership of its properties necessitates qualification;

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(p) Legal Opinion. Agent shall have received the executed legal opinions of (i) Mackall, Crouse & Moore, P.C., (ii) local California counsel, and (iii) local Canadian counsel, each in form and substance satisfactory to Agent which shall cover such matters incident to the transactions contemplated by this Agreement, the Notes, the Fee Letter, the Mortgage, the Other Documents, and related agreements as Agent may reasonably require and each Borrower hereby authorizes and directs such counsel to deliver such opinions to Agent and Lenders;

(q) AAP Joint Venture. Agent shall have received the certificate of formation and operating agreement of the AAP Joint Venture, all other agreements among members of the AAP Joint Venture, any guarantees by any Borrower of any obligations the AAP Joint Venture and any other documents, instruments and agreements requested by Agent with respect to the AAP Joint Venture.

(r) Whirlpool Inventory. Agent shall have received all repurchase agreements with respect to Whirlpool Inventory and all such agreements shall be satisfactory to both Agent;

(s) No Litigation. (i) No litigation, investigation or proceeding before or by any arbitrator or Governmental Body shall be continuing or

threatened against any Borrower or directors of any Borrower (A) in connection with this Agreement, the Other Documents or any of the transactions contemplated thereby and which, in the reasonable opinion of Agent, is deemed material or (B) which could, in the reasonable opinion of Agent, have a Material Adverse Effect; and (ii) no injunction, writ, restraining order or other order of any nature materially adverse to any Borrower or the conduct of its business or inconsistent with the due consummation of the Transactions shall have been issued by any Governmental Body;

(t) Collateral Examination. Agent shall have completed Collateral examinations and received appraisals, the results of which shall be satisfactory in form and substance to Lenders, of the Receivables, Inventory, General Intangibles, Real Property, and Equipment of each Borrower and all books and records in connection therewith;

(u) Fees. Agent shall have received all fees payable to Agent and Lenders on or prior to the Closing Date hereunder, including pursuant to Article III hereof;

(v) Pro Forma Financial Statements. Agent shall have received a copy of the Pro Forma Financial Statements which shall be satisfactory in all respects to Lenders;

(w) Insurance. Agent shall have received in form and substance satisfactory to Agent, certified copies of Borrowers' casualty insurance policies, together with loss payable endorsements on Agent's standard form of loss payee endorsement naming Agent as loss payee, and certified copies of Borrowers' liability insurance policies, together with endorsements naming Agent as a co-insured;

(x) Payment Instructions. Agent shall have received written instructions from Borrowing Agent directing the application of proceeds of the initial Advances made pursuant to this Agreement;

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(y) Consents. Agent shall have received any and all Consents necessary to permit the effectuation of the transactions contemplated by this Agreement and the Other Documents; and, Agent shall have received such Consents and waivers of such third parties as might assert claims with respect to the Collateral, as Agent and its counsel shall deem necessary;

(z) No Adverse Material Change. (i) since October 31, 2010, there shall not have occurred any event, condition or state of facts which could reasonably be expected to have a Material Adverse Effect and (ii) no representations made or information supplied to Agent or Lenders shall have been proven to be inaccurate or misleading in any material respect;

(aa) Contract Review. Agent shall have reviewed all Material Contracts of Borrowers including leases, union contracts, labor contracts, vendor supply contracts, license agreements and distributorship agreements and such contracts and agreements shall be satisfactory in all respects to Agent;

(bb) Undrawn Availability. After giving effect to the initial Advances hereunder, Borrowers shall have Undrawn Availability of at least \$2,000,000;

(cc) Compliance with Laws. Agent shall be reasonably satisfied that each Borrower is in compliance with all pertinent federal, state, local or territorial regulations, including those with respect to the Federal Occupational Safety and Health Act, the Environmental Protection Act, ERISA and the Trading with the Enemy Act; and

(dd) Other. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the Transactions shall be satisfactory in form and substance to Agent and its counsel.

8.2. Conditions to Each Advance. The agreement of Lenders to make any Advance requested to be made on any date (including the initial Advance), is subject to the satisfaction of the following conditions precedent as of the date such Advance is made:

(a) Representations and Warranties. Each of the representations and warranties made by any Borrower in or pursuant to this Agreement, the Other Documents and any related agreements to which it is a party, and each of the representations and warranties contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement, the Other Documents or any related agreement shall be true and correct in all respects on and as of such date as if made on and as of such date;

(b) No Default. No Event of Default or Default shall have occurred and be continuing on such date, or would exist after giving effect to the Advances requested to be made, on such date; provided, however that Agent, in its sole discretion, may continue to make Advances notwithstanding the existence of an Event of Default or Default and that any Advances so made shall not be deemed a waiver of any such Event of Default or Default; and

(c) Maximum Advances. In the case of any type of Advance requested to be made, after giving effect thereto, the aggregate amount of such type of Advance shall not exceed the maximum amount of such type of Advance permitted under this Agreement.

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Each request for an Advance by any Borrower hereunder shall constitute a representation and warranty by each Borrower as of the date of such Advance that the conditions contained in this subsection shall have been satisfied.

IX. INFORMATION AS TO BORROWERS.

Each Borrower shall, or (except with respect to Section 9.11) shall cause Borrowing Agent on its behalf to, until satisfaction in full of the Obligations and the termination of this Agreement:

9.1. Disclosure of Material Matters. Immediately upon learning thereof, report to Agent all matters materially affecting the value, enforceability or collectibility of any portion of the Collateral, including any Borrower's reclamation or repossession of, or the return to any Borrower of, a material amount of goods or claims or disputes asserted by any Customer or other obligor.

9.2. Schedules. Deliver to Agent on or before (i) the twentieth (20th) day of each month as and for the prior month: (a) accounts receivable ageings

inclusive of reconciliations to the general ledger, (b) accounts payable ageings; and (c) Thursday of each week, as and for the prior week, (a) Credit Card Receivables reports, (b) Inventory reports, (c) sales, collections and credits reports, and (d) a Borrowing Base Certificate in form and substance satisfactory to Agent (which shall be calculated as of the last day of the prior month and which shall not be binding upon Agent or restrictive of Agent's rights under this Agreement). In addition, each Borrower will deliver to Agent at such intervals as Agent may require: (i) confirmatory assignment schedules; (ii) copies of Customer's invoices; (iii) evidence of shipment or delivery; and (iv) such further schedules, documents and/or information regarding the Collateral as Agent may require including trial balances and test verifications. Agent shall have the right to confirm and verify all Receivables by any manner and through any medium it considers advisable and do whatever it may deem reasonably necessary to protect its interests hereunder. The items to be provided under this Section are to be in form satisfactory to Agent and executed by each Borrower and delivered to Agent from time to time solely for Agent's convenience in maintaining records of the Collateral, and any Borrower's failure to deliver any of such items to Agent shall not affect, terminate, modify or otherwise limit Agent's Lien with respect to the Collateral.

9.3. Environmental Reports. Furnish Agent, concurrently with the delivery of the financial statements referred to in Sections 9.7 and 9.8, with a certificate signed by the President of Borrowing Agent stating, to the best of his knowledge, that each Borrower is in compliance in all material respects with all federal, state and local Environmental Laws. To the extent any Borrower is not in compliance with the foregoing laws, the certificate shall set forth with specificity all areas of non-compliance and the proposed action such Borrower will implement in order to achieve full compliance.

9.4. Litigation. Promptly notify Agent in writing of any claim, litigation, suit or administrative proceeding affecting any Borrower or any Guarantor, whether or not the claim is covered by insurance, and of any litigation, suit or administrative proceeding, which in any such

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case affects the Collateral or which could reasonably be expected to have a Material Adverse Effect.

9.5. Material Occurrences. Promptly notify Agent in writing upon the occurrence of: (a) any Event of Default or Default; (b) any event of default under any Subordinated Indebtedness; (c) any event which with the giving of notice or lapse of time, or both, would constitute an event of default under any Subordinated Indebtedness; (d) any event, development or circumstance whereby any financial statements or other reports furnished to Agent fail in any material respect to present fairly, in accordance with GAAP consistently applied, the financial condition or operating results of any Borrower as of the date of such statements; (e) any accumulated retirement plan funding deficiency which, if such deficiency continued for two plan years and was not corrected as provided in Section 4971 of the Code, could subject any Borrower to a tax imposed by Section 4971 of the Code; (f) each and every default by any Borrower which might result in the acceleration of the maturity of any Indebtedness, including the names and addresses of the holders of such Indebtedness with respect to which there is a default existing or with respect to which the maturity has been or could be accelerated, and the amount of such Indebtedness; and (g) any other development in the business or affairs of any Borrower or any Guarantor, which could reasonably be expected to have a Material Adverse Effect; in each case describing the nature thereof and the action Borrowers propose to take with respect thereto.

9.6. Government Receivables. Notify Agent immediately if any of its Receivables arise out of contracts between any Borrower and the United States, any state, Canada, any province, or any department, agency or instrumentality of any of them.

9.7. Annual Financial Statements. Furnish Agent and Lenders within ninety (90) days after the end of each fiscal year of Borrowers, financial statements of Borrowers on a consolidating and consolidated basis including, but not limited to, statements of income and stockholders' equity and cash flow from the beginning of the current fiscal year to the end of such fiscal year and the balance sheet as at the end of such fiscal year, all prepared in accordance with GAAP applied on a basis consistent with prior practices, and in reasonable detail and reported upon without qualification by an independent certified public accounting firm selected by Borrowers and satisfactory to Agent (the "Accountants"); provided however that if Borrowers file their annual report on Form 10-K with the SEC for the applicable fiscal year and such annual report contains the financial statements and reports described above, in a form acceptable to Agent in its reasonable discretion, then Borrowers may satisfy the foregoing requirement by delivering a copy of such annual report to Agent and each Lender. The report of the Accountants shall be accompanied by a statement of the Accountants certifying that (i) they have caused this Agreement to be reviewed, (ii) in making the examination upon which such report was based either no information came to their attention which to their knowledge constituted an Event of Default or a Default under this Agreement or any related agreement or, if such information came to their attention, specifying any such Default or Event of Default, its nature, when it occurred and whether it is continuing, and such report shall contain or have appended thereto calculations which set forth Borrowers' compliance with the requirements or restrictions imposed by Sections 6.5, 7.4, 7.5, 7.6, 7.7, 7.8 and 7.11 hereof. In addition, the reports shall be accompanied by a Compliance Certificate.

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9.8. Quarterly Financial Statements. Furnish Agent and Lenders within forty five (45) days after the end of each fiscal quarter, an unaudited balance sheet of Borrowers on a consolidated and consolidating basis and unaudited statements of income and stockholders' equity and cash flow of Borrowers on a consolidated and consolidating basis reflecting results of operations from the beginning of the fiscal year to the end of such quarter and for such quarter, prepared on a basis consistent with prior practices and complete and correct in all material respects, subject to normal and recurring year end adjustments that individually and in the aggregate are not material to Borrowers' business; provided however that if Borrowers file their quarterly report on Form 10-Q with the SEC for the applicable fiscal quarter and such quarterly report contains the financial statements and reports described above, in a form acceptable to Agent in its reasonable discretion, then Borrowers may satisfy the foregoing requirement by delivering a copy of such quarterly report to Agent and each Lender. The reports shall be accompanied by a Compliance Certificate.

9.9. Monthly Financial Statements. Furnish Agent and Lenders within thirty (30) days after the end of each month (other than for the months of March, June, September and December which shall be delivered in accordance with Sections 9.7 and 9.8 as applicable), an unaudited balance sheet of Borrowers on a consolidated and consolidating basis and unaudited statements of income and stockholders' equity and cash flow of Borrowers on a consolidated and consolidating basis reflecting results of operations from the beginning of the fiscal year to the end of such month and for such month, prepared on a basis consistent with prior practices and complete and correct in all material respects, subject to normal and recurring year end adjustments that individually and in the aggregate are not material to Borrowers' business. The monthly reports shall be accompanied by a Compliance Certificate and a certification that all rental payments owing for leased Real Property are paid and current.

9.10. Other Reports. Furnish Agent as soon as available, but in any event within ten (10) days after the issuance thereof, with copies of such financial statements, reports and returns as each Borrower shall send to its stockholders.

9.11. Additional Information. Furnish Agent with such additional information as Agent shall reasonably request in order to enable Agent to determine whether the terms, covenants, provisions and conditions of this Agreement and the Notes have been complied with by Borrowers including, without the necessity

of any request by Agent, (a) copies of all environmental audits and reviews, (b) at least thirty (30) days prior thereto, notice of any Borrower's opening of any new office or place of business or any Borrower's closing of any existing office or place of business, and (c) promptly upon any Borrower's learning thereof, notice of any labor dispute to which any Borrower may become a party, any strikes or walkouts relating to any of its plants or other facilities, and the expiration of any labor contract to which any Borrower is a party or by which any Borrower is bound.

9.12. Projected Operating Budget. Furnish Agent and Lenders, no later than thirty (30) days prior to the beginning of each Borrower's fiscal years commencing with fiscal year 2012, a month by month projected operating budget and cash flow of Borrowers on a consolidated and consolidating basis for such fiscal year (including an income statement for each month and a balance sheet as at the end of the last month in each fiscal quarter), such projections to be accompanied by a certificate signed by the President or Chief Financial Officer of each Borrower

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to the effect that such projections have been prepared on the basis of sound financial planning practice consistent with past budgets and financial statements and that such officer has no reason to question the reasonableness of any material assumptions on which such projections were prepared.

9.13. Variances From Operating Budget. Furnish Agent, concurrently with the delivery of the financial statements referred to in Section 9.7 and 9.8 report, a written report summarizing all material variances from budgets submitted by Borrowers pursuant to Section 9.12 and a discussion and analysis by management with respect to such variances.

9.14. Notice of Suits, Adverse Events. Furnish Agent with prompt written notice of (i) any lapse or other termination of any Consent issued to any Borrower by any Governmental Body or any other Person that is material to the operation of any Borrower's business, (ii) any refusal by any Governmental Body or any other Person to renew or extend any such Consent; and (iii) copies of any periodic or special reports filed by any Borrower or any Guarantor with any Governmental Body or Person, if such reports indicate any material change in the business, operations, affairs or condition of any Borrower or any Guarantor, or if copies thereof are requested by Lender, and (iv) copies of any material notices and other communications from any Governmental Body or Person which specifically relate to any Borrower or any Guarantor.

9.15. ERISA Notices and Requests. Furnish Agent with immediate written notice in the event that (i) any Borrower or any member of the Controlled Group knows or has reason to know that a Termination Event has occurred, together with a written statement describing such Termination Event and the action, if any, which such Borrower or any member of the Controlled Group has taken, is taking, or proposes to take with respect thereto and, when known, any action taken or threatened by the Internal Revenue Service, Department of Labor or PBGC with respect thereto, (ii) any Borrower or any member of the Controlled Group knows or has reason to know that a prohibited transaction (as defined in Sections 406 of ERISA and 4975 of the Code) has occurred together with a written statement describing such transaction and the action which such Borrower or any member of the Controlled Group has taken, is taking or proposes to take with respect thereto, (iii) a funding waiver request has been filed with respect to any Plan together with all communications received by any Borrower or any member of the Controlled Group with respect to such request, (iv) any increase in the benefits of any existing Plan or the establishment of any new Plan or the commencement of contributions to any Plan to which any Borrower or any member of the Controlled Group was not previously contributing shall occur, (v) any Borrower or any member of the Controlled Group shall receive from the PBGC a notice of intention to terminate a Plan or to have a trustee appointed to administer a Plan, together with copies of each such notice, (vi) any Borrower or any member of the Controlled Group shall receive any favorable or unfavorable determination letter from the Internal Revenue Service regarding the qualification of a Plan under Section 401(a) of the Code, together with copies of each such letter; (vii) any Borrower or any member of the Controlled Group shall receive a notice regarding the imposition of withdrawal liability, together with copies of each such notice; (viii) any Borrower or any member of the Controlled Group shall fail to make a required installment or any other required payment under Section 412 of the Code on or before the due date for such installment or payment; or (ix) any Borrower or any member of the Controlled Group knows that (a) a Multiemployer Plan has been terminated, (b) the administrator or plan sponsor of a Multiemployer Plan intends to terminate a Multiemployer Plan, or (c) the PBGC has

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instituted or will institute proceedings under Section 4042 of ERISA to terminate a Multiemployer Plan.

9.16. Additional Documents. Execute and deliver to Agent, upon request, such documents and agreements as Agent may, from time to time, reasonably request to carry out the purposes, terms or conditions of this Agreement.

X. EVENTS OF DEFAULT.

The occurrence of any one or more of the following events shall constitute an "Event of Default":

10.1. Nonpayment. Failure by any Borrower to pay any principal or interest on the Obligations when due, whether at maturity or by reason of acceleration pursuant to the terms of this Agreement or by notice of intention to prepay, or by required prepayment or failure to pay when due any other liabilities or make any other payment, fee or charge provided for herein when due or in any Other Document;

10.2. Breach of Representation. Any representation or warranty made or deemed made by any Borrower or any Guarantor in this Agreement, any Other Document or any related agreement or in any certificate, document or financial or other statement furnished at any time in connection herewith or therewith shall prove to have been misleading in any material respect on the date when made or deemed to have been made;

10.3. Financial Information. Failure by any Borrower to (i) furnish financial information when due or when requested (which failure, with respect to Sections 9.7, 9.8 or 9.9 shall not be cured within fifteen (15) days), or (ii) permit the inspection of its books or records;

10.4. Judicial Actions. Issuance of a notice of Lien, levy, assessment, injunction or attachment against any Borrower's Inventory or Receivables or against a material portion of any Borrower's other property which is not stayed or lifted within thirty (30) days;

10.5. Noncompliance. Except as otherwise provided for in Sections 10.1, 10.3 and 10.5(ii), (i) failure or neglect of any Borrower or any Guarantor to perform, keep or observe any term, provision, condition, covenant herein contained, or contained in any Other Document or any other agreement or arrangement, now or hereafter entered into between any Borrower or any Guarantor, and Agent or any Lender, or (ii) failure or neglect of any Borrower to perform, keep or observe any term, provision, condition or covenant, contained in Sections 4.5, 4.6, 4.7, 4.8, 4.9, 4.12, 4.14, 6.1, 6.3, 6.4, 6.6, 9.4 or 9.6 hereof which is not cured within fifteen (15) days from the occurrence of such failure or neglect;

10.6. Judgments. Any judgment or judgments against any Borrower or any Guarantor for an aggregate amount in excess of \$100,000 or against all Borrowers or Guarantors for an aggregate amount in excess of \$100,000 and (i) enforcement proceedings shall have been commenced by a creditor upon such judgment, (ii) there shall be any period of thirty (30) consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, shall not be in effect, or (iii) any such judgment results in the creation of a Lien upon any of the Collateral (other than a Permitted Encumbrance);

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10.7. Bankruptcy. Any Borrower or any Guarantor shall (i) apply for, consent to or suffer the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar fiduciary of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of creditors, (iii) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (iv) be adjudicated a bankrupt or insolvent, (v) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vi) acquiesce to, or fail to have dismissed, within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (vii) take any action for the purpose of effecting any of the foregoing;

10.8. Inability to Pay. Any Borrower or any Guarantor shall admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business;

10.9. Affiliate Bankruptcy. Any Affiliate or any Subsidiary of any Borrower, shall (i) apply for, consent to or suffer the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar fiduciary of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business, (iii) make a general assignment for the benefit of creditors, (iv) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (v) be adjudicated a bankrupt or insolvent, (vi) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesce to, or fail to have dismissed, within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (viii) take any action for the purpose of effecting any of the foregoing;

10.10. Material Adverse Effect. The occurrence of any Material Adverse Effect;

10.11. Lien Priority. Any Lien created hereunder or provided for hereby or under any related agreement (i) on Receivables or Inventory for any reason ceases to be or is not a valid and perfected Lien having a first priority security interest, or (ii) on any other Collateral for any reason cease to be or is not a valid and perfected Lien having a first priority security interest (other than Permitted Encumbrances).

10.12. Subordinated Indebtedness Default. An event of default has occurred under any Subordinated Indebtedness or related subordination agreement, which default shall not have been cured or waived within any applicable grace period;

10.13. Cross Default. A (a) default of the obligations of any Borrower under any other agreement to which it is a party shall occur which causes a Material Adverse Effect which default is not cured within any applicable grace period, or (b) an Event of Default as defined in and under the AAP Joint Venture Term Loan Note or any event of default under any security agreement or guaranty executed in connection therewith;

10.14. Breach of Guaranty or Pledge Agreement. Termination or breach of any Guaranty, Guaranty Security Agreement, Pledge Agreement or similar agreement executed and delivered to Agent in connection with the Obligations of any Borrower, or if any Guarantor

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attempts to terminate, challenges the validity of, or its liability under, any such Guaranty, Guaranty Security Agreement, Pledge Agreement or similar agreement;

10.15. Change of Ownership. Any Change of Control shall occur;

10.16. Invalidity. Any material provision of this Agreement or any Other Document shall, for any reason, cease to be valid and binding on any Borrower or any Guarantor, or any Borrower or any Guarantor shall so claim in writing to Agent or any Lender;

10.17. Licenses. (i) Any Governmental Body shall (a) revoke, terminate, suspend or adversely modify any license, permit, patent trademark or tradename of any Borrower or any Guarantor, the continuation of which is material to the continuation of any Borrower's business, or (b) commence proceedings to suspend, revoke, terminate or adversely modify any such license, permit, trademark, tradename or patent and such proceedings shall not be dismissed or discharged within sixty (60) days, or (c) schedule or conduct a hearing on the renewal of any license, permit, trademark, tradename or patent necessary for the continuation of any Borrower's business and the staff of such Governmental Body issues a report recommending the termination, revocation, suspension or material, adverse modification of such license, permit, trademark, tradename or patent; (ii) any agreement which is necessary or material to the operation of any Borrower's or any Guarantor's business shall be revoked or terminated and not replaced by a substitute acceptable to Agent within thirty (30) days after the date of such revocation or termination, and such revocation or termination and non-replacement would reasonably be expected to have a Material Adverse Effect;

10.18. Seizures. Any portion of the Collateral shall be seized or taken by a Governmental Body, or any Borrower or any Guarantor or the title and rights of any Borrower, any Guarantor or any Original Owner which is the owner of any material portion of the Collateral shall have become the subject matter of claim, litigation, suit or other proceeding which might, in the opinion of Agent, upon final determination, result in impairment or loss of the security provided by this Agreement or the Other Documents;

10.19. Operations. The operations of any Borrower are interrupted at any time for more than five (5) consecutive days, unless such Borrower shall (i) be entitled to receive for such period of interruption, proceeds of business interruption insurance sufficient to assure that its per diem cash needs during such period is at least equal to its average per diem cash needs for the consecutive three month period immediately preceding the initial date of interruption and (ii) receive such proceeds in the amount described in clause (i) preceding not later than thirty (30) days following the initial date of any such interruption; provided, however, that notwithstanding the provisions of clauses (i) and (ii) of this section, an Event of Default shall be deemed to have occurred if such Borrower shall be receiving the proceeds of business interruption insurance for a period of thirty (30) consecutive days; or

10.20. Pension Plans. An event or condition specified in Sections 7.16 or 9.15 hereof shall occur or exist with respect to any Plan and, as a result of such event or condition, together with all other such events or conditions, any Borrower or any member of the Controlled Group shall incur, or in the opinion of Agent be reasonably likely to incur, a liability to a Plan or the

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PBGC (or both) which, in the reasonable judgment of Agent, would have a Material Adverse Effect.

XI. LENDERS' RIGHTS AND REMEDIES AFTER DEFAULT.

11.1. Rights and Remedies.

(a) Upon the occurrence of: (i) an Event of Default pursuant to Section 10.7 all Obligations shall be immediately due and payable and this Agreement and the obligation of Lenders to make Advances shall be deemed terminated; and, (ii) any of the other Events of Default and at any time thereafter, at the option of Required Lenders all Obligations shall be immediately due and payable and Lenders shall have the right to terminate this Agreement and to terminate the obligation of Lenders to make Advances; and (iii) a filing of a petition against any Borrower in any involuntary case under any state or federal bankruptcy laws, all Obligations shall be immediately due and payable and the obligation of Lenders to make Advances hereunder shall be terminated other than as may be required by an appropriate order of the bankruptcy court having jurisdiction over such Borrower. Upon the occurrence of any Event of Default, Agent shall have the right to exercise any and all rights and remedies provided for herein, under the Other Documents, under the Uniform Commercial Code and at law or equity generally, including the right to foreclose the security interests granted herein and to realize upon any Collateral by any available judicial procedure and/or to take possession of and sell any or all of the Collateral with or without judicial process. Agent may enter any of any Borrower's premises or other premises without legal process and without incurring liability to any Borrower therefor, and Agent may thereupon, or at any time thereafter, in its discretion without notice or demand, take the Collateral and remove the same to such place as Agent may deem advisable and Agent may require Borrowers to make the Collateral available to Agent at a convenient place. With or without having the Collateral at the time or place of sale, Agent may sell the Collateral, or any part thereof, at public or private sale, at any time or place, in one or more sales, at such price or prices, and upon such terms, either for cash, credit or future delivery, as Agent may elect. Except as to that part of the Collateral which is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Agent shall give Borrowers reasonable notification of such sale or sales, it being agreed that in all events written notice mailed to Borrowing Agent at least ten (10) days prior to such sale or sales is reasonable notification. At any public sale Agent or any Lender may bid for and become the purchaser, and Agent, any Lender or any other purchaser at any such sale thereafter shall hold the Collateral sold absolutely free from any claim or right of whatsoever kind, including any equity of redemption and all such claims, rights and equities are hereby expressly waived and released by each Borrower. In connection with the exercise of the foregoing remedies, including the sale of Inventory, Agent is granted a perpetual nonrevocable, royalty free, nonexclusive license and Agent is granted permission to use all of each Borrower's (a) trademarks, trade styles, trade names, patents, patent applications, copyrights, service marks, licenses, franchises and other proprietary rights which are used or useful in connection with Inventory for the purpose of marketing, advertising for sale and selling or otherwise disposing of such Inventory and (b) Equipment for the purpose of completing the manufacture of unfinished goods. The cash proceeds realized from the sale of any Collateral shall be applied to the Obligations in the order set forth in Section 11.5 hereof. Noncash proceeds will only be applied to the Obligations as

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they are converted into cash. If any deficiency shall arise, Borrowers shall remain liable to Agent and Lenders therefor.

(b) To the extent that Applicable Law imposes duties on the Agent to exercise remedies in a commercially reasonable manner, each Borrower acknowledges and agrees that it is not commercially unreasonable for the Agent: (i) to fail to incur expenses reasonably deemed significant by the Agent to prepare Collateral for disposition or otherwise to complete raw material or work in process into finished goods or other finished products for disposition; (ii) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of; (iii) to fail to exercise collection remedies against Customers or other Persons obligated on Collateral or to remove Liens on or any adverse claims against Collateral; (iv) to exercise collection remedies against Customers and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists; (v) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature; (vi) to contact other Persons, whether or not in the same business as any Borrower, for expressions of interest in acquiring all or any portion of such Collateral; (vii) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature; (viii) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capacity of doing so, or that match buyers and sellers of assets; (ix) to dispose of assets in wholesale rather than retail markets; (x) to disclaim disposition warranties, such as title, possession or quiet enjoyment, (xi) to purchase insurance or credit enhancements to insure the Agent against risks of loss, collection or disposition of Collateral or to provide to the Agent a guaranteed return from the collection or disposition of Collateral; or (xii) to the extent deemed appropriate by the Agent, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Agent in the collection or disposition of any of the Collateral. Each Borrower acknowledges that the purpose of this Section 11.1(b) is to provide non-exhaustive indications of what actions or omissions by the Agent would not be commercially unreasonable in the Agent's exercise of remedies against the Collateral and that other actions or omissions by the Agent shall not be deemed commercially unreasonable solely on account of not being indicated in this Section 11.1(b). Without limitation upon the foregoing, nothing contained in this Section 11.1(b) shall be construed to grant any rights to any Borrower or to impose any duties on Agent that would not have been granted or imposed by this Agreement or by Applicable Law in the absence of this Section 11.1(b).

(c) Without limiting any right or remedy of the Agent in this Agreement, upon the occurrence and during the continuance of any Event of Default, the Agent may by instrument in writing appoint any person as a receiver of all or any part of the Collateral of any Canadian Borrower. The Agent may from time to time remove or replace a receiver, or make application to any court of competent jurisdiction for the appointment of a receiver. Any receiver appointed by the Agent shall (for purposes relating to responsibility for the receiver's acts or omissions) be considered to be the agent of the applicable Canadian Borrower. The Agent may from time to time fix the receiver's remuneration and the Borrowers shall pay the amount of such remuneration to the Agent. The Agent shall not be liable to any Canadian

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Borrower or any other person in connection with appointing or not appointing a receiver or in connection with the receiver's actions or omissions.

11.2. Agent's Discretion. Agent shall have the right in its sole discretion to determine which rights, Liens, security interests or remedies Agent may at any time pursue, relinquish, subordinate, or modify or to take any other action with respect thereto and such determination will not in any way modify or affect any of Agent's or Lenders' rights hereunder.

11.3. Setoff. Subject to Section 14.12, in addition to any other rights which Agent or any Lender may have under Applicable Law, upon the

occurrence of an Event of Default hereunder, Agent and such Lender shall have a right, immediately and without notice of any kind, to apply any Borrower's property held by Agent and such Lender to reduce the Obligations.

11.4. Rights and Remedies not Exclusive. The enumeration of the foregoing rights and remedies is not intended to be exhaustive and the exercise of any rights or remedy shall not preclude the exercise of any other right or remedies provided for herein or otherwise provided by law, all of which shall be cumulative and not alternative.

11.5. Allocation of Payments After Event of Default. Notwithstanding any other provisions of this Agreement to the contrary, after the occurrence and during the continuance of an Event of Default, all amounts collected or received by the Agent on account of the Obligations or any other amounts outstanding under any of the Other Documents or in respect of the Collateral may, at Agent's discretion, be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) of the Agent in connection with enforcing its rights and the rights of the Lenders under this Agreement and the Other Documents and any protective advances made by the Agent with respect to the Collateral under or pursuant to the terms of this Agreement;

SECOND, to payment of any fees owed to the Agent;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) of each of the Lenders to the extent owing to such Lender pursuant to the terms of this Agreement;

FOURTH, to the payment of all of the Obligations consisting of accrued fees and interest;

FIFTH, to the payment of the outstanding principal amount of the Obligations (including the payment or cash collateralization of any outstanding Letters of Credit) to be applied first to the AAP Joint Venture Term Loan;

SIXTH, to all other Obligations and other obligations which shall have become due and payable under the Other Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FIFTH" above; and

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SEVENTH, to the payment of the surplus, if any, to whoever may be lawfully entitled to receive such surplus.

In carrying out the foregoing, (i) amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category; (ii) each of the Lenders shall receive (so long as it is not a Defaulting Lender) an amount equal to its pro rata share (based on the proportion that the then outstanding Advances held by such Lender bears to the aggregate then outstanding Advances) of amounts available to be applied pursuant to clauses "FOURTH", "FIFTH" and "SIXTH" above; and (iii) to the extent that any amounts available for distribution pursuant to clause "FIFTH" above are attributable to the issued but undrawn amount of outstanding Letters of Credit, such amounts shall be held by the Agent in a cash collateral account and applied (A) first, to reimburse the Issuer from time to time for any drawings under such Letters of Credit and (B) then, following the expiration of all Letters of Credit, to all other obligations of the types described in clauses "FIFTH" and "SIXTH" above in the manner provided in this Section 11.5.

XII. WAIVERS AND JUDICIAL PROCEEDINGS.

12.1. Waiver of Notice. Each Borrower hereby waives notice of non-payment of any of the Receivables, demand, presentment, protest and notice thereof with respect to any and all instruments, notice of acceptance hereof, notice of loans or advances made, credit extended, Collateral received or delivered, or any other action taken in reliance hereon, and all other demands and notices of any description, except such as are expressly provided for herein.

12.2. Delay. No delay or omission on Agent's or any Lender's part in exercising any right, remedy or option shall operate as a waiver of such or any other right, remedy or option or of any Default or Event of Default.

12.3. Jury Waiver. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE AND EACH PARTY HEREBY CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENTS OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

12.4. Additional Waivers. As provided by Section 16.1, this Agreement shall be governed by, and construed in accordance with, the laws of the State of Illinois. The following

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waivers and the provisions which pertain to California law are included solely out of an abundance of caution, and shall not be construed to mean that any of the above-referenced provisions of California law are in any way applicable to this Agreement or the Obligations:

(a) Each Borrower, in the event it shall be held or deemed to be a guarantor of the Obligations of any other Borrower, hereby expressly waives any rights and defenses that are or may become available to such Borrower by reason of Sections 2787 to 2855, inclusive, and Sections 2899 and 3433 of the California Civil Code;

(b) Each Borrower, in the event it shall be held or deemed to be a guarantor of the Obligations of any other Borrower, understands and acknowledges that if Agent forecloses judicially or nonjudicially against any Real Property security for the Obligations, that foreclosure could impair or destroy any ability that such Borrower may have to seek reimbursement, contribution, or indemnification from the other Borrowers or others based on any right such Borrower may have of subrogation, reimbursement, contribution, or indemnification for any amounts paid by such Borrower under this Agreement. Each Borrower further

understands and acknowledges that in the absence of this paragraph, such Borrower's rights, if any, may entitle such Borrower to assert a defense to this Agreement based on Section 580d of the California Code of Civil Procedure as interpreted in Union Bank v. Gradsky, 265 Cal. App. 2d 40 (1968). By executing this Agreement, such Borrower freely, irrevocably, and unconditionally: (i) waives and relinquishes that defense and agrees that such Borrower will be fully liable under this Agreement even though the Agent may foreclose, either by judicial foreclosure or by exercise of power of sale, any deed of trust securing the Obligations; (ii) agrees that such Borrower will not assert that defense in any action or proceeding which Agent or Lenders may commence to enforce this Agreement; (iii) acknowledges and agrees that the rights and defenses waived by such Borrower in this Agreement include any right or defense that such Borrower may have or be entitled to assert based upon or arising out of any one or more of §§ 580a, 580b, 580d, or 726 of the California Code of Civil Procedure or § 2848 of the California Civil Code; and (iv) acknowledges and agrees that Agent and Lenders are relying on this waiver in creating the Obligations, and that this waiver is a material part of the consideration which Agent and Lenders are receiving for creating the Obligations;

(c) Each Borrower waives all rights and defenses that such Borrower may have because any of the Obligations are secured by real property. This means, among other things: (i) Agent and Lenders may collect from such Borrower without first foreclosing on any real or personal property collateral pledged by any other Borrower or Guarantor; and (ii) if Agent forecloses on any real property collateral pledged by any other Borrower or Guarantor: (A) the amount of the Obligations may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price, and (B) the Agent may collect from such Borrower even if Agent, by foreclosing on the real property collateral, has destroyed any right such Borrower may have to collect from the other Borrowers. This is an unconditional and irrevocable waiver of any rights and defenses such Borrower may have because any of the Obligations are secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon § 580a, 580b, 580d, or 726 of the California Code of Civil Procedure; and

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(d) Each Borrower waives any right or defense it may have at law or equity, including California Code of Civil Procedure § 580a, to a fair market value hearing or action to determine a deficiency judgment after a foreclosure.

XIII. EFFECTIVE DATE AND TERMINATION.

13.1. Term. This Agreement, which shall inure to the benefit of and shall be binding upon the respective successors and permitted assigns of each Borrower, Agent and each Lender, shall become effective on the date hereof and shall continue in full force and effect until January 24, 2014 (the "Term") unless sooner terminated as herein provided. Borrowers may terminate this Agreement at any time upon ninety (90) days' prior written notice upon payment in full of the Obligations.

13.2. Termination. The termination of the Agreement shall not affect any Borrower's, Agent's or any Lender's rights, or any of the Obligations having their inception prior to the effective date of such termination, and the provisions hereof shall continue to be fully operative until all transactions entered into, rights or interests created or Obligations have been fully and indefeasibly paid, disposed of, concluded or liquidated. The security interests, Liens and rights granted to Agent and Lenders hereunder and the financing statements filed hereunder shall continue in full force and effect, notwithstanding the termination of this Agreement or the fact that Borrowers' Account may from time to time be temporarily in a zero or credit position, until all of the Obligations of each Borrower have been indefeasibly paid and performed in full after the termination of this Agreement or each Borrower has furnished Agent and Lenders with an indemnification satisfactory to Agent and Lenders with respect thereto. Accordingly, each Borrower waives any rights which it may have under the Uniform Commercial Code to demand the filing of termination statements with respect to the Collateral, and Agent shall not be required to send such termination statements to each Borrower, or to file them with any filing office, unless and until this Agreement shall have been terminated in accordance with its terms and all Obligations have been indefeasibly paid in full in immediately available funds. All representations, warranties, covenants, waivers and agreements contained herein shall survive termination hereof until all Obligations are indefeasibly paid and performed in full.

XIV. REGARDING AGENT.

14.1. Appointment. Each Lender hereby designates PNC to act as Agent for such Lender under this Agreement and the Other Documents. Each Lender hereby irrevocably authorizes Agent to take such action on its behalf under the provisions of this Agreement and the Other Documents and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto and Agent shall hold all Collateral, payments of principal and interest, fees (except the fees set forth in the Fee Letter), charges and collections (without giving effect to any collection days) received pursuant to this Agreement, for the ratable benefit of Lenders. Agent may perform any of its duties hereunder by or through its agents or employees. As to any matters not expressly provided for by this Agreement (including collection of the Note) Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such

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instructions shall be binding; provided, however, that Agent shall not be required to take any action which exposes Agent to liability or which is contrary to this Agreement or the Other Documents or Applicable Law unless Agent is furnished with an indemnification reasonably satisfactory to Agent with respect thereto.

14.2. Nature of Duties. Agent shall have no duties or responsibilities except those expressly set forth in this Agreement and the Other Documents. Neither Agent nor any of its officers, directors, employees or agents shall be (i) liable for any action taken or omitted by them as such hereunder or in connection herewith, unless caused by their gross (not mere) negligence or willful misconduct (as determined by a court of competent jurisdiction in a final non-appealable judgment), or (ii) responsible in any manner for any recitals, statements, representations or warranties made by any Borrower or any officer thereof contained in this Agreement, or in any of the Other Documents or in any certificate, report, statement or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any of the Other Documents or for the value, validity, effectiveness, genuineness, due execution, enforceability or sufficiency of this Agreement, or any of the Other Documents or for any failure of any Borrower to perform its obligations hereunder. Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any of the Other Documents, or to inspect the properties, books or records of any Borrower. The duties of Agent as respects the Advances to Borrowers shall be mechanical and administrative in nature; Agent shall not have by reason of this Agreement a fiduciary relationship in respect of any Lender; and nothing in this Agreement, expressed or implied, is intended to or shall be so construed as to impose upon Agent any obligations in respect of this Agreement except as expressly set forth herein.

14.3. Lack of Reliance on Agent and Resignation. Independently and without reliance upon Agent or any other Lender, each Lender has made and shall continue to make (i) its own independent investigation of the financial condition and affairs of each Borrower and each Guarantor in connection with the making and the continuance of the Advances hereunder and the taking or not taking of any action in connection herewith, and (ii) its own appraisal of the

creditworthiness of each Borrower and each Guarantor. Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Lender with any credit or other information with respect thereto, whether coming into its possession before making of the Advances or at any time or times thereafter except as shall be provided by any Borrower pursuant to the terms hereof. Agent shall not be responsible to any Lender for any recitals, statements, information, representations or warranties herein or in any agreement, document, certificate or a statement delivered in connection with or for the execution, effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any Other Document, or of the financial condition of any Borrower or any Guarantor, or be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement, the Note, the Other Documents or the financial condition of any Borrower, or the existence of any Event of Default or any Default.

Agent may resign on sixty (60) days' written notice to each of Lenders and Borrowing Agent and upon such resignation, the Required Lenders will promptly designate a successor Agent reasonably satisfactory to Borrowers.

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Any such successor Agent shall succeed to the rights, powers and duties of Agent, and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent. After any Agent's resignation as Agent, the provisions of this Article XIV shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

14.4. Certain Rights of Agent. If Agent shall request instructions from Lenders with respect to any act or action (including failure to act) in connection with this Agreement or any Other Document, Agent shall be entitled to refrain from such act or taking such action unless and until Agent shall have received instructions from the Required Lenders; and Agent shall not incur liability to any Person by reason of so refraining. Without limiting the foregoing, Lenders shall not have any right of action whatsoever against Agent as a result of its acting or refraining from acting hereunder in accordance with the instructions of the Required Lenders.

14.5. Reliance. Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, statement, certificate, telex, teletype or telecopier message, cablegram, order or other document or telephone message believed by it to be genuine and correct and to have been signed, sent or made by the proper person or entity, and, with respect to all legal matters pertaining to this Agreement and the Other Documents and its duties hereunder, upon advice of counsel selected by it. Agent may employ agents and attorneys-in-fact and shall not be liable for the default or misconduct of any such agents or attorneys-in-fact selected by Agent with reasonable care.

14.6. Notice of Default. Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder or under the Other Documents, unless Agent has received notice from a Lender or Borrowing Agent referring to this Agreement or the Other Documents, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that Agent receives such a notice, Agent shall give notice thereof to Lenders. Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until Agent shall have received such directions, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of Lenders.

14.7. Indemnification. To the extent Agent is not reimbursed and indemnified by Borrowers, each Lender will reimburse and indemnify Agent in proportion to its respective portion of the Advances (or, if no Advances are outstanding, according to its Commitment Percentage), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against Agent in performing its duties hereunder, or in any way relating to or arising out of this Agreement or any Other Document; provided that, Lenders shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from Agent's gross (not mere) negligence or willful misconduct (as determined by a court of competent jurisdiction in a final non-appealable judgment).

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14.8. Agent in its Individual Capacity. With respect to the obligation of Agent to lend under this Agreement, the Advances made by it shall have the same rights and powers hereunder as any other Lender and as if it were not performing the duties as Agent specified herein; and the term "Lender" or any similar term shall, unless the context clearly otherwise indicates, include Agent in its individual capacity as a Lender. Agent may engage in business with any Borrower as if it were not performing the duties specified herein, and may accept fees and other consideration from any Borrower for services in connection with this Agreement or otherwise without having to account for the same to Lenders.

14.9. Delivery of Documents. To the extent Agent receives financial statements required under Sections 9.7, 9.8, 9.9, 9.12 and 9.13 or Borrowing Base Certificates from any Borrower pursuant to the terms of this Agreement which any Borrower is not obligated to deliver to each Lender, Agent will promptly furnish such documents and information to Lenders.

14.10. Borrowers' Undertaking to Agent. Without prejudice to their respective obligations to Lenders under the other provisions of this Agreement, each Borrower hereby undertakes with Agent to pay to Agent from time to time on demand all amounts from time to time due and payable by it for the account of Agent or Lenders or any of them pursuant to this Agreement to the extent not already paid. Any payment made pursuant to any such demand shall pro tanto satisfy the relevant Borrower's obligations to make payments for the account of Lenders or the relevant one or more of them pursuant to this Agreement.

14.11. No Reliance on Agent's Customer Identification Program. Each Lender acknowledges and agrees that neither such Lender, nor any of its Affiliates, participants or assignees, may rely on the Agent to carry out such Lender's, Affiliate's, participant's or assignee's customer identification program, or other obligations required or imposed under or pursuant to the USA PATRIOT Act or the regulations thereunder, including the regulations contained in 31 CFR 103.121 (as hereafter amended or replaced, the "CIP Regulations"), or any other Anti-Terrorism Law, including any programs involving any of the following items relating to or in connection with any Borrower, its Affiliates or its agents, this Agreement, the Other Documents or the transactions hereunder or contemplated hereby: (1) any identity verification procedures, (2) any record-keeping, (3) comparisons with government lists, (4) customer notices or (5) other procedures required under the CIP Regulations or such other laws.

14.12. Other Agreements. Each of the Lenders agrees that it shall not, without the express consent of Agent, and that it shall, to the extent it is lawfully entitled to do so, upon the request of Agent, set off against the Obligations, any amounts owing by such Lender to any Borrower or any deposit accounts of any Borrower now or hereafter maintained with such Lender. Anything in this Agreement to the contrary notwithstanding, each of the Lenders further agrees that it shall not, unless specifically requested to do so by Agent, take any action to protect or enforce its rights arising out of this Agreement or the Other Documents, it being the intent of Lenders that any such action to protect or enforce rights under this Agreement and the Other Documents shall be taken in

XV. BORROWING AGENCY.

15.1. Borrowing Agency Provisions.

(a) Each Borrower hereby irrevocably designates Borrowing Agent to be its attorney and agent and in such capacity to borrow, sign and endorse notes, and execute and deliver all instruments, documents, writings and further assurances now or hereafter required hereunder, on behalf of such Borrower or Borrowers, and hereby authorizes Agent to pay over or credit all loan proceeds hereunder in accordance with the request of Borrowing Agent.

(b) The handling of this credit facility as a co-borrowing facility with a borrowing agent in the manner set forth in this Agreement is solely as an accommodation to Borrowers and at their request. Neither Agent nor any Lender shall incur liability to Borrowers as a result thereof. To induce Agent and Lenders to do so and in consideration thereof, each Borrower hereby indemnifies Agent and each Lender and holds Agent and each Lender harmless from and against any and all liabilities, expenses, losses, damages and claims of damage or injury asserted against Agent or any Lender by any Person arising from or incurred by reason of the handling of the financing arrangements of Borrowers as provided herein, reliance by Agent or any Lender on any request or instruction from Borrowing Agent or any other action taken by Agent or any Lender with respect to this Section 15.1 except due to willful misconduct or gross (not mere) negligence by the indemnified party (as determined by a court of competent jurisdiction in a final and non-appealable judgment).

(c) All Obligations shall be joint and several, and each Borrower shall make payment upon the maturity of the Obligations by acceleration or otherwise, and such obligation and liability on the part of each Borrower shall in no way be affected by any extensions, renewals and forbearance granted to Agent or any Lender to any Borrower, failure of Agent or any Lender to give any Borrower notice of borrowing or any other notice, any failure of Agent or any Lender to pursue or preserve its rights against any Borrower, the release by Agent or any Lender of any Collateral now or thereafter acquired from any Borrower, and such agreement by each Borrower to pay upon any notice issued pursuant thereto is unconditional and unaffected by prior recourse by Agent or any Lender to the other Borrowers or any Collateral for such Borrower's Obligations or the lack thereof. Each Borrower waives all suretyship defenses.

15.2. Waiver of Subrogation. Each Borrower expressly waives any and all rights of subrogation, reimbursement, indemnity, exoneration, contribution of any other claim which such Borrower may now or hereafter have against the other Borrowers or other Person directly or contingently liable for the Obligations hereunder, or against or with respect to the other Borrowers' property (including, without limitation, any property which is Collateral for the Obligations), arising from the existence or performance of this Agreement, until termination of this Agreement and repayment in full of the Obligations.

XVI. MISCELLANEOUS.

16.1. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois applied to contracts to be performed wholly within the State of Illinois. Any judicial proceeding brought by or against any Borrower with respect to any of the Obligations, this Agreement, the Other Documents or any related agreement may be brought in any court of competent jurisdiction in the State of Illinois, United States of

America, and, by execution and delivery of this Agreement, each Borrower accepts for itself and in connection with its properties, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement. Each Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to Borrowing Agent at its address set forth in Section 16.6 and service so made shall be deemed completed five (5) days after the same shall have been so deposited in the mails of the United States of America, or, at the Agent's option, by service upon Borrowing Agent which each Borrower irrevocably appoints as such Borrower's Agent for the purpose of accepting service within the State of Illinois. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of Agent or any Lender to bring proceedings against any Borrower in the courts of any other jurisdiction. Each Borrower waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. Each Borrower waives the right to remove any judicial proceeding brought against such Borrower in any state court to any federal court. Any judicial proceeding by any Borrower against Agent or any Lender involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Agreement or any related agreement, shall be brought only in a federal or state court located in the County of Cook, State of Illinois.

16.2. Entire Understanding.

(a) This Agreement and the documents executed concurrently herewith contain the entire understanding between each Borrower, Agent and each Lender and supersedes all prior agreements and understandings, if any, relating to the subject matter hereof. Any promises, representations, warranties or guarantees not herein contained and hereinafter made shall have no force and effect unless in writing, signed by each Borrower's, Agent's and each Lender's respective officers. Neither this Agreement nor any portion or provisions hereof may be changed, modified, amended, waived, supplemented, discharged, cancelled or terminated orally or by any course of dealing, or in any manner other than by an agreement in writing, signed by the party to be charged. Each Borrower acknowledges that it has been advised by counsel in connection with the execution of this Agreement and Other Documents and is not relying upon oral representations or statements inconsistent with the terms and provisions of this Agreement.

(b) The Required Lenders, Agent with the consent in writing of the Required Lenders, and Borrowers may, subject to the provisions of this Section 16.2 (b), from time to time enter into written supplemental agreements to this Agreement or the Other Documents executed by Borrowers, for the purpose of adding or deleting any provisions or otherwise changing, varying or waiving in any manner the rights of Lenders, Agent or Borrowers thereunder or the conditions, provisions or terms thereof or waiving any Event of Default thereunder, but only to the extent specified in such written agreements; provided, however, that no such supplemental agreement shall, without the consent of all Lenders:

(i) increase the Commitment Percentage, the maximum dollar commitment of any Lender or the Maximum Revolving Advance Amount;

- (ii) extend the maturity of any Note or the due date for any amount payable hereunder, or decrease the rate of interest or reduce any fee payable by Borrowers to Lenders pursuant to this Agreement;
- (iii) alter the definition of the term Required Lenders or alter, amend or modify this Section 16.2(b);
- (iv) release any Collateral during any calendar year (other than in accordance with the provisions of this Agreement) having an aggregate value in excess of \$1,000,000;
- (v) change the rights and duties of Agent;
- (vi) permit any Revolving Advance to be made if after giving effect thereto the total of Revolving Advances outstanding hereunder would exceed the Formula Amount for more than sixty (60) consecutive Business Days or exceed one hundred and ten percent (110%) of the Formula Amount;
- (vii) increase the Advance Rates above the Advance Rates in effect on the Closing Date; or
- (viii) release any Guarantor.

Any such supplemental agreement shall apply equally to each Lender and shall be binding upon Borrowers, Lenders and Agent and all future holders of the Obligations. In the case of any waiver, Borrowers, Agent and Lenders shall be restored to their former positions and rights, and any Event of Default waived shall be deemed to be cured and not continuing, but no waiver of a specific Event of Default shall extend to any subsequent Event of Default (whether or not the subsequent Event of Default is the same as the Event of Default which was waived), or impair any right consequent thereon.

In the event that Agent requests the consent of a Lender pursuant to this Section 16.2 and such consent is denied, then PNC may, at its option, require such Lender to assign its interest in the Advances to PNC or to another Lender or to any other Person designated by the Agent (the "Designated Lender"), for a price equal to (i) the then outstanding principal amount thereof plus (ii) accrued and unpaid interest and fees due such Lender, which interest and fees shall be paid when collected from Borrowers. In the event PNC elects to require any Lender to assign its interest to PNC or to the Designated Lender, PNC will so notify such Lender in writing within forty five (45) days following such Lender's denial, and such Lender will assign its interest to PNC or the Designated Lender no later than five (5) days following receipt of such notice pursuant to a Commitment Transfer Supplement executed by such Lender, PNC or the Designated Lender, as appropriate, and Agent.

Notwithstanding (a) the existence of a Default or an Event of Default, (b) that any of the other applicable conditions precedent set forth in Section 8.2 hereof have not been satisfied or (c) any other provision of this Agreement, Agent may at its discretion and without the consent of the Required Lenders, voluntarily permit the outstanding Revolving Advances at any time to exceed the Formula Amount by up to ten percent (10%) of the Formula Amount for up to sixty (60)

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consecutive Business Days (the "Out-of-Formula Loans"). If Agent is willing in its sole and absolute discretion to make such Out-of-Formula Loans, such Out-of-Formula Loans shall be payable on demand and shall bear interest at the Default Rate for Revolving Advances consisting of Domestic Rate Loans; provided that, if Lenders do make Out-of-Formula Loans, neither Agent nor Lenders shall be deemed thereby to have changed the limits of Section 2.1(a). For purposes of this paragraph, the discretion granted to Agent hereunder shall not preclude involuntary overadvances that may result from time to time due to the fact that the Formula Amount was unintentionally exceeded for any reason, including, but not limited to, Collateral previously deemed to be either "Eligible Receivables", "Eligible Unbilled Receivable", Eligible Credit Card Receivables Amount", "Eligible Whirlpool Inventory", "Eligible Whirlpool Aged Inventory" or "Eligible Inventory", as applicable, becomes ineligible, collections of Receivables applied to reduce outstanding Revolving Advances are thereafter returned for insufficient funds or overadvances are made to protect or preserve the Collateral. In the event Agent involuntarily permits the outstanding Revolving Advances to exceed the Formula Amount by more than ten percent (10%), Agent shall use its efforts to have Borrowers decrease such excess in as expeditious a manner as is practicable under the circumstances and not inconsistent with the reason for such excess. Revolving Advances made after Agent has determined the existence of involuntary overadvances shall be deemed to be involuntary overadvances and shall be decreased in accordance with the preceding sentence.

In addition to (and not in substitution of) the discretionary Revolving Advances permitted above in this Section 16.2, the Agent is hereby authorized by Borrowers and the Lenders, from time to time in the Agent's sole discretion, (A) after the occurrence and during the continuation of a Default or an Event of Default, or (B) at any time that any of the other applicable conditions precedent set forth in Section 8.2 hereof have not been satisfied, to make Revolving Advances to Borrowers on behalf of the Lenders which the Agent, in its reasonable business judgment, deems necessary or desirable (a) to preserve or protect the Collateral, or any portion thereof, (b) to enhance the likelihood of, or maximize the amount of, repayment of the Advances and other Obligations, or (c) to pay any other amount chargeable to Borrowers pursuant to the terms of this Agreement; provided, that at any time after giving effect to any such Revolving Advances the outstanding Revolving Advances do not exceed one hundred and ten percent (110%) of the Formula Amount.

16.3. Successors and Assigns; Participations; New Lenders.

(a) This Agreement shall be binding upon and inure to the benefit of Borrowers, Agent, each Lender, all future holders of the Obligations and their respective successors and assigns, except that no Borrower may assign or transfer any of its rights or obligations under this Agreement without the prior written consent of Agent and each Lender.

(b) Each Borrower acknowledges that in the regular course of commercial banking business one or more Lenders may at any time and from time to time sell participating interests in the Advances to other financial institutions (each such transferee or purchaser of a participating interest, a "Participant"). Each Participant may exercise all rights of payment (including rights of set-off) with respect to the portion of such Advances held by it or other Obligations payable hereunder as fully as if such Participant were the direct holder thereof provided that Borrowers shall not be required to pay to any Participant more than the amount

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which it would have been required to pay to Lender which granted an interest in its Advances or other Obligations payable hereunder to such Participant had such Lender retained such interest in the Advances hereunder or other Obligations payable hereunder and in no event shall Borrowers be required to pay any such amount arising from the same circumstances and with respect to the same Advances or other Obligations payable hereunder to both such Lender and such

Participant. Each Borrower hereby grants to the Participant security interest in any deposits, moneys or other property actually or constructively held by such Participant as security for the Participant's interest in the Advances.

(c) Any Lender, with the consent of Agent which shall not be unreasonably withheld or delayed, may sell, assign or transfer all or any part of its rights and obligations under or relating to Revolving Advances, and/or Term Loans under this Agreement and the Other Documents to one or more additional banks or financial institutions and one or more additional banks or financial institutions may commit to make Advances hereunder (each a "Purchasing Lender"), in minimum amounts of not less than \$3,000,000, pursuant to a Commitment Transfer Supplement, executed by a Purchasing Lender, the transferor Lender, and Agent and delivered to Agent for recording. Upon such execution, delivery, acceptance and recording, from and after the transfer effective date determined pursuant to such Commitment Transfer Supplement, (i) Purchasing Lender thereunder shall be a party hereto and, to the extent provided in such Commitment Transfer Supplement, have the rights and obligations of a Lender thereunder with a Commitment Percentage as set forth therein, and (ii) the transferor Lender thereunder shall, to the extent provided in such Commitment Transfer Supplement, be released from its obligations under this Agreement, the Commitment Transfer Supplement creating a novation for that purpose. Such Commitment Transfer Supplement shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing Lender and the resulting adjustment of the Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of such transferor Lender under this Agreement and the Other Documents. Each Borrower hereby consents to the addition of such Purchasing Lender and the resulting adjustment of the Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of such transferor Lender under this Agreement and the Other Documents. Borrowers shall execute and deliver such further documents and do such further acts and things in order to effectuate the foregoing.

(d) Any Lender, with the consent of Agent which shall not be unreasonably withheld or delayed, may directly or indirectly sell, assign or transfer all or any portion of its rights and obligations under or relating to Revolving Advances and/or Term Loans under this Agreement and the Other Documents to an entity, whether a corporation, partnership, trust, limited liability company or other entity that (i) is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and (ii) is administered, serviced or managed by the assigning Lender or an Affiliate of such Lender (a "Purchasing CLO" and together with each Participant and Purchasing Lender, each a "Transferee" and collectively the "Transferees"), pursuant to a Commitment Transfer Supplement modified as appropriate to reflect the interest being assigned ("Modified Commitment Transfer Supplement"), executed by any intermediate purchaser, the Purchasing CLO, the transferor Lender, and Agent as appropriate and delivered to Agent for recording. Upon such execution and delivery, from and after the transfer effective date determined pursuant

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to such Modified Commitment Transfer Supplement, (i) Purchasing CLO thereunder shall be a party hereto and, to the extent provided in such Modified Commitment Transfer Supplement, have the rights and obligations of a Lender thereunder and (ii) the transferor Lender thereunder shall, to the extent provided in such Modified Commitment Transfer Supplement, be released from its obligations under this Agreement, the Modified Commitment Transfer Supplement creating a novation for that purpose. Such Modified Commitment Transfer Supplement shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing CLO. Each Borrower hereby consents to the addition of such Purchasing CLO. Borrowers shall execute and deliver such further documents and do such further acts and things in order to effectuate the foregoing.

(e) Agent shall maintain at its address a copy of each Commitment Transfer Supplement and Modified Commitment Transfer Supplement delivered to it and a register (the "Register") for the recordation of the names and addresses of each Lender and the outstanding principal, accrued and unpaid interest and other fees due hereunder. The entries in the Register shall be conclusive, in the absence of manifest error, and each Borrower, Agent and Lenders may treat each Person whose name is recorded in the Register as the owner of the Advance recorded therein for the purposes of this Agreement. The Register shall be available for inspection by Borrowing Agent or any Lender at any reasonable time and from time to time upon reasonable prior notice. Agent shall receive a fee in the amount of \$3,500 payable by the applicable Purchasing Lender and/or Purchasing CLO upon the effective date of each transfer or assignment (other than to an intermediate purchaser) to such Purchasing Lender and/or Purchasing CLO.

(f) Each Borrower authorizes each Lender to disclose to any Transferee and any prospective Transferee any and all financial information in such Lender's possession concerning such Borrower which has been delivered to such Lender by or on behalf of such Borrower pursuant to this Agreement or in connection with such Lender's credit evaluation of such Borrower.

16.4. Application of Payments. Agent shall have the continuing and exclusive right to apply or reverse and re-apply any payment and any and all proceeds of Collateral to any portion of the Obligations. To the extent that any Borrower makes a payment or Agent or any Lender receives any payment or proceeds of the Collateral for any Borrower's benefit, which are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver, custodian or any other party under any bankruptcy law, common law or equitable cause, then, to such extent, the Obligations or part thereof intended to be satisfied shall be revived and continue as if such payment or proceeds had not been received by Agent or such Lender.

16.5. Indemnity. Each Borrower shall indemnify Agent, each Lender and each of their respective officers, directors, Affiliates, attorneys, employees and agents from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against Agent or any Lender in any claim, litigation, proceeding or investigation instituted or conducted by any Governmental Body or instrumentality or any other Person with respect to any aspect of, or any transaction contemplated by, or referred to in, or any matter related to, this Agreement or the Other

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Documents, whether or not Agent or any Lender is a party thereto, except to the extent that any of the foregoing arises out of the willful misconduct of the party being indemnified (as determined by a court of competent jurisdiction in a final and non-appealable judgment). Without limiting the generality of the foregoing, this indemnity shall extend to any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including fees and disbursements of counsel) asserted against or incurred by any of the indemnitees described above in this Section 16.5 by any Person under any Environmental Laws or similar laws by reason of any Borrower's or any other Person's failure to comply with laws applicable to solid or hazardous waste materials, including Hazardous Substances and Hazardous Waste, or other Toxic Substances. Additionally, if any taxes (excluding taxes imposed upon or measured solely by the net income of Agent and Lenders, but including any intangibles taxes, stamp tax, recording tax or franchise tax) shall be payable by Agent, Lenders or Borrowers on account of the execution or delivery of this Agreement, or the execution, delivery, issuance or recording of any of the Other Documents, or the creation or repayment of any of the Obligations hereunder, by reason of any Applicable Law now or hereafter in effect, Borrowers will pay (or will promptly reimburse Agent and Lenders for payment of) all such taxes, including interest and penalties thereon, and will indemnify and hold the indemnitees described above in this Section 16.5 harmless from and against all liability in connection therewith.

16.6. Currency Indemnity. If, for the purposes of obtaining judgment in any jurisdiction with respect to this Agreement or any Other Document, it becomes necessary to convert into the currency of such jurisdiction (the "Judgment Currency") any amount due under this Agreement or under any Other Document in any currency other than the Judgment Currency (the "Currency Due"), then conversion shall be made at the rate of exchange prevailing on the Business Day before the day on which judgment is given. For this purpose "rate of exchange" means the rate at which the Agent is able, on the relevant date, to purchase the Currency Due with the Judgment Currency in accordance with its normal practice. In the event that there is a change in the rate of exchange prevailing between the Business Day before the day on which the judgment is given and the date of receipt by the Agent of the amount due, the Borrowers will, on the date of receipt by the Agent, pay such additional amounts, if any, or be entitled to receive reimbursement of such amount, if any, as may be necessary to ensure that the amount received by the Agent on such date is the amount in the Judgment Currency which when converted at the rate of exchange prevailing on the date of receipt by the Agent is the amount then due under this Agreement or such Other Document in the Currency Due. If the amount of the Currency Due which the Agent is so able to purchase is less than the amount of the Currency Due originally due to it, the Borrowers shall indemnify and save the Agent and the Lenders harmless from and against all loss or damage arising as a result of such deficiency. This indemnity shall constitute an obligation separate and independent from the other obligations contained in this Agreement and the Other Documents, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by the Agent from time to time and shall continue in full force and effect notwithstanding any judgment or order for a liquidated sum in respect of an amount due under this Agreement or any Other Document or under any judgment or order.

16.7. Notice. Any notice or request hereunder may be given to Borrowing Agent or any Borrower or to Agent or any Lender at their respective addresses set forth below or at such other address as may hereafter be specified in a notice designated as a notice of change of

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address under this Section. Any notice, request, demand, direction or other communication (for purposes of this Section 16.7 only, a "Notice") to be given to or made upon any party hereto under any provision of this Loan Agreement shall be given or made by telephone or in writing (which includes by means of electronic transmission (i.e., "e-mail") or facsimile transmission. Any such Notice must be delivered to the applicable parties hereto at the addresses and numbers set forth under their respective names on Section 16.7 hereof or in accordance with any subsequent unrevoked Notice from any such party that is given in accordance with this Section 16.7. Any Notice shall be effective:

(a) In the case of hand-delivery, when delivered;

(b) If given by mail, four days after such Notice is deposited with the United States or Canadian Postal Service, with first-class postage prepaid, return receipt requested;

(c) In the case of a telephonic Notice, when a party is contacted by telephone, if delivery of such telephonic Notice is confirmed no later than the next Business Day by hand delivery, a facsimile or electronic transmission, a Website Posting or an overnight courier delivery of a confirmatory Notice (received at or before noon on such next Business Day);

(d) In the case of a facsimile transmission, when sent to the applicable party's facsimile machine's telephone number, if the party sending such Notice receives confirmation of the delivery thereof from its own facsimile machine;

(e) In the case of electronic transmission, when actually received; and

(f) If given by any other means (including by overnight courier), when actually received.

Any Lender giving a Notice to Borrowing Agent or any Borrower shall concurrently send a copy thereof to the Agent, and the Agent shall promptly notify the other Lenders of its receipt of such Notice.

(A) If to Agent or PNC at:

PNC Bank, National Association
200 South Wacker Drive
Suite 600
Chicago, Illinois 60606
Attention: Portfolio Manager
Telephone: (312) 454-2920
Facsimile: (312) 454-2919

with an additional copy to:

Blank Rome LLP
The Chrysler Building
405 Lexington Avenue
New York, New York 10174

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Attn: Lawrence F. Flick, II, Esquire
Telephone: 212-885-5556
Facsimile: 215-832-5556 (B)

(B) If to a Lender other than Agent, as specified on the signature pages hereof

(C) If to Borrowing Agent or any Borrower:

Appliance Recycling Centers of America, Inc.
7400 Excelsior Blvd.

Minneapolis, MN 55426
Attention: Peter Hausback
Telephone: 952-930-1799

with a copy to:

Mackall, Crouse & Moore, PLC
1400 AT&T Tower
901 Marquette Avenue
Minneapolis, MN 55402
Attention: Timothy J. Grande, Esquire
Telephone: 612-305-1400
Facsimile: 612-305-1414

16.8. Survival. The obligations of Borrowers under Sections 2.2(f), 3.7, 3.8, 3.9, 4.19(h), and 16.5 and the obligations of Lenders under Section 14.7, shall survive termination of this Agreement and the Other Documents and payment in full of the Obligations.

16.9. Severability. If any part of this Agreement is contrary to, prohibited by, or deemed invalid under Applicable Laws or regulations, such provision shall be inapplicable and deemed omitted to the extent so contrary, prohibited or invalid, but the remainder hereof shall not be invalidated thereby and shall be given effect so far as possible.

16.10. Expenses. All costs and expenses including attorneys' fees (including the allocated costs of in house counsel) and disbursements incurred by Agent on its behalf or on behalf of Lenders (a) in all efforts made to enforce payment of any Obligation or effect collection of any Collateral or enforcement of this Agreement or any of the Other Documents, or (b) in connection with the entering into, modification, amendment and administration of this Agreement or any of the Other Documents or any consents or waivers hereunder or thereunder and all related agreements, documents and instruments, or (c) in instituting, maintaining, preserving, enforcing and foreclosing on Agent's security interest in or Lien on any of the Collateral, or maintaining, preserving or enforcing any of Agent's or any Lender's rights hereunder or under any of the Other Documents and under all related agreements, documents and instruments, whether through judicial proceedings or otherwise, or (d) in defending or prosecuting any actions or proceedings arising out of or relating to Agent's or any Lender's transactions with any Borrower, any Guarantor or any Subordinated Lender or (e) in connection

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with any advice given to Agent or any Lender with respect to its rights and obligations under this Agreement or any of the Other Documents and all related agreements, documents and instruments, may be charged to Borrowers' Account and shall be part of the Obligations.

16.11. Injunctive Relief. Each Borrower recognizes that, in the event any Borrower fails to perform, observe or discharge any of its obligations or liabilities under this Agreement, or threatens to fail to perform, observe or discharge such obligations or liabilities, any remedy at law may prove to be inadequate relief to Lenders; therefore, Agent, if Agent so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving that actual damages are not an adequate remedy.

16.12. Consequential Damages. Neither Agent nor any Lender, nor any agent or attorney for any of them, shall be liable to any Borrower or any Guarantor (or any Affiliate of any such Person) for indirect, punitive, exemplary or consequential damages arising from any breach of contract, tort or other wrong relating to the establishment, administration or collection of the Obligations or as a result of any transaction contemplated under this Agreement or any Other Document.

16.13. Captions. The captions at various places in this Agreement are intended for convenience only and do not constitute and shall not be interpreted as part of this Agreement.

16.14. Counterparts; Facsimile Signatures. This Agreement may be executed in any number of and by different parties hereto on separate counterparts, all of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile or electronic transmission shall be deemed to be an original signature hereto.

16.15. Construction. The parties acknowledge that each party and its counsel have reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments, schedules or exhibits thereto.

16.16. Confidentiality; Sharing Information. Agent, each Lender and each Transferee shall hold all non-public information obtained by Agent, such Lender or such Transferee pursuant to the requirements of this Agreement in accordance with Agent's, such Lender's and such Transferee's customary procedures for handling confidential information of this nature; provided, however, Agent, each Lender and each Transferee may disclose such confidential information (a) to its examiners, Affiliates, outside auditors, counsel and other professional advisors, (b) to Agent, any Lender or to any prospective Transferees, and (c) as required or requested by any Governmental Body or representative thereof or pursuant to legal process; provided, further that (i) unless specifically prohibited by Applicable Law, Agent, each Lender and each Transferee shall use its reasonable best efforts prior to disclosure thereof, to notify the applicable Borrower of the applicable request for disclosure of such non-public information (A) by a Governmental Body or representative thereof (other than any such request in connection with an examination of the financial condition of a Lender or a Transferee by such Governmental Body) or (B) pursuant to legal process and (ii) in no event shall Agent, any Lender or any Transferee be obligated to return any materials furnished by any Borrower other than those

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documents and instruments in possession of Agent or any Lender in order to perfect its Lien on the Collateral once the Obligations have been paid in full and this Agreement has been terminated. Each Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to such Borrower or one or more of its Affiliates (in connection with this Agreement or otherwise) by any Lender or by one or more Subsidiaries or Affiliates of such Lender and each Borrower hereby authorizes each Lender to share any information delivered to such Lender by such Borrower and its Subsidiaries pursuant to this Agreement, or in connection with the decision of such Lender to enter into this Agreement, to any such Subsidiary or Affiliate of such Lender, it being understood that any such Subsidiary or Affiliate of any Lender receiving such information shall be bound by the provisions of this Section 16.16 as if it were a Lender hereunder. Such authorization shall survive the repayment of the other Obligations and the termination of this Agreement.

16.17. Publicity. Each Borrower and each Lender hereby authorizes Agent to make appropriate announcements of the financial arrangement entered into among Borrowers, Agent and Lenders, including announcements which are commonly known as tombstones, in such publications and to such selected parties as Agent shall in its sole and absolute discretion deem appropriate.

16.18. Certifications From Banks and Participants: USA PATRIOT Act. Each Lender or assignee or participant of a Lender that is not incorporated under the Laws of the United States of America or a state thereof (and is not excepted from the certification requirement contained in Section 313 of the USA PATRIOT Act and the applicable regulations because it is both (i) an affiliate of a depository institution or foreign bank that maintains a physical presence in the United States or foreign country, and (ii) subject to supervision by a banking authority regulating such affiliated depository institution or foreign bank) shall deliver to the Agent the certification, or, if applicable, recertification, certifying that such Lender is not a "shell" and certifying to other matters as required by Section 313 of the USA PATRIOT Act and the applicable regulations: (1) within 10 days after the Closing Date, and (2) as such other times as are required under the USA PATRIOT Act.

Each of the parties has signed this Agreement as of the day and year first above written.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By: /s/Edward R. Cameron
 Name: Edward R. Cameron
 Title: President / CEO

APPLIANCE RECYCLING CENTERS OF AMERICA-CALIFORNIA, INC.

By: /s/Edward R. Cameron
 Name: Edward R. Cameron
 Title: President / CEO

ARCA CANADA INC.

By: s/Edward R. Cameron
 Name: Edward R. Cameron
 Title: President / CEO

PNC BANK, NATIONAL ASSOCIATION,
 As Lender and as Agent

By: /s/Peter Zimmerer
 Name: Peter Zimmerer
 Title: S.V.P.

Commitment Percentage: 100%

EXHIBIT 1.2

FORM OF BORROWING BASE CERTIFICATE

Borrowing Base Certificate

PNCBANK

Appliance Recycling Centers of America, Inc.

Report No.

Collateral Status	AR-Domestic	Unbilled A/R-US	AR-Canada	Unbilled A/R-Canada	CC-AR	Inventory	Total
1. Beginning Collateral (Line 4 prior report)							
2. Additions to Collateral (New Billings Increases and Adjustments)							
3a. Credit Memos							
3b. Cash Collections							
4. Total Collateral							
5. Less Ineligible Collateral							
6. Total Eligible Collateral ROE (Rate of Exchange)							

6a. Total Eligible Collateral (USD)

Loan Status	AR-Domestic	Unbilled A/R-US	AR-Canada	Unbilled A/R-Canada	CC-AR	Inventory	Total
7. Advance Percentage	85.0%	80.0%	85.0%	80.0%	85.0%	Various	
8. Collateral Value (Line 6a X Line 7)							
Reserves							
8a. Gift Card Liability							
8b. A/R Pmt Reserve							
8c. Whirlpool Letter of Credit							
8c. AAP Loan Guarantee							
8d. Cap on Canadian Facility (\$1.5MM)							
8e. Net Collateral Value							
9. Loan Balance							
10. CA Building Refinance Funds							
11. Collateral Available for Loan							

For PNC Bank Use

Checked By _____ Date _____ DATE _____
 BORROWER Appliance Recycling Centers of America, Inc
 BY _____

EXHIBIT 1.2(a)

FORM OF COMPLIANCE CERTIFICATE

TO: **PNC BANK, NATIONAL ASSOCIATION**, as Administrative Agent

The undersigned, the [Chief Financial Officer / Controller] of Appliance Recycling Centers of America, Inc. ("ARCA", together with ARCA-CA, ARCA Canada and any other Person joined as a borrower to the Credit Agreement from time to time, the "Borrowers" and each a "Borrower"), certifies that, under the terms and conditions of the Revolving Credit, Term Loan and Security Agreement dated as of December , 2010 among Borrowers, Agent and the Lenders named therein (the "Agreement"), (i) Borrowers are in complete compliance for the period ending with all required covenants set forth in the Agreement and no Default or Event of Default exists, [(if not true, in the "Comments Regarding Exceptions" section below specify the Default or Event of Default, its nature, when it occurred, whether it is continuing and the steps being taken by Borrowers with respect to such Default or Event of Default)], and (ii) all representations and warranties in the Agreement are true and correct in all material respects on this date. Without limiting the foregoing, the undersigned certifies that Borrowers are in compliance with the requirements or restrictions imposed by Sections 6.5, 7.4, 7.5, 7.6, 7.7, 7.8, 7.10 and 7.11 of the Agreement, except as may be set forth below, and attached hereto as Schedule A are covenant calculations which show such compliance (or non-compliance) therewith. (Capitalized terms used in this Certificate which are not defined herein shall have the meanings set forth in the Agreement.) Nothing herein limits or modifies any of the terms or provisions of the Agreement.

Compliance status is indicated by circling Yes/No under "Complies" column.

Financial Covenants	Required	Actual	Complies
Section 6.5—Fixed Charge Coverage Ratio at least	1.10 to 1.00		Yes No
Other Covenants			
Section 7.4 — Investments	Yes	No	
Section 7.5 — Loans	Yes	No	
Section 7.6 — Capital Expenditures	Yes	No	
Section 7.7 — Dividends	Yes	No	
Section 7.8 — Indebtedness	Yes	No	
Section 7.10 — Transactions with Affiliates	Yes	No	
Section 7.11 — Leases	Yes	No	

Other than as listed in the Agreement or in a prior Compliance Certificate, Borrowers have only the following operating and other deposit accounts, securities accounts, commodities accounts, and other accounts at which Borrower maintains funds or investments, at the following institutions:

Other than as listed in the Agreement or in a prior Compliance Certificate, Borrowers have only the following patents, registered trademarks, servicemarks, copyrights and maskworks, including any applications for any of the foregoing, and including any licenses pursuant to which any Borrower is a licensee of any of the foregoing: _____

Comments Regarding Exceptions: _____

Sincerely,

_____ Date _____

Name: _____

Title: [Chief Financial Officer / Controller]

EXHIBIT 2.1(a)

REVOLVING CREDIT NOTE

\$15,000,000

January 24, 2011

FOR VALUE RECEIVED, APPLIANCE RECYCLING CENTERS OF AMERICA, INC., a corporation organized under the laws of the State of Minnesota ("ARCA"), **APPLIANCE RECYCLING CENTERS OF AMERICA-CALIFORNIA, INC.**, a corporation organized under the laws of the State of California ("ARCA-CA"), **ARCA CANADA INC.**, a corporation organized under the laws of the province of Ontario ("ARCA Canada", together with ARCA and ARCA-CA, collectively, the "Borrowers", and each a "Borrower"), hereby, jointly and severally, promise to pay to the order of **PNC BANK, NATIONAL ASSOCIATION** ("PNC"), at the office of Agent (as defined below) at the address set forth in the Loan Agreement (as defined below) or at such other place as Agent may from time to time designate to Borrower in writing: the lesser of the principal sum of FIFTEEN MILLION DOLLARS (\$15,000,000) or such lesser sum which then represents PNC's Commitment Percentage of the aggregate unpaid principal amount of all Revolving Advances made or extended to Borrowers by PNC pursuant to the Loan Agreement, in lawful money of the United States of America in immediately available funds, together with interest on the principal hereunder remaining unpaid from time to time, at the rate or rates from time to time in effect under the Loan Agreement; provided, however, that the entire unpaid principal balance of this Revolving Credit Note shall be due and payable in full at the end of the Term, or earlier as provided in the Loan Agreement.

THIS REVOLVING CREDIT NOTE is executed and delivered under and pursuant to the terms of that certain Revolving Credit, Term Loan and Security Agreement, dated as of the date hereof (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement"), by and among Borrowers, the various financial institutions named therein or which hereafter become a party thereto as lenders (the "Lenders") and PNC, in its capacity as agent for Lenders (in such capacity, "Agent") and in its capacity as a Lender. Capitalized terms used herein and not otherwise defined herein shall have the meanings provided in the Loan Agreement.

Each Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever as further set forth in the Loan Agreement.

This Revolving Credit Note is one of the Revolving Credit Notes referred to in the Loan Agreement, which among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayments of the principal hereof prior to the maturity hereof and for the amendment or waiver of certain terms and conditions therein specified.

THIS REVOLVING CREDIT NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL SUBSTANTIVE LAWS OF THE STATE OF ILLINOIS.

[SIGNATURES TO APPEAR ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the undersigned have executed this Note the day and year first written above intending to be legally bound hereby.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By: /s/Edward R. Cameron
Name: Edward R. Cameron
Title: President / CEO

APPLIANCE RECYCLING CENTERS OF AMERICA-CALIFORNIA, INC.

By: /s/Edward R. Cameron
Name: Edward R. Cameron
Title: President / CEO

ARCA CANADA INC.

By: /s/Edward R. Cameron
Name: Edward R. Cameron
Title: President / CEO

EXHIBIT 2.4(a)

TERM LOAN NOTE

\$2,550,000

January 24, 2011

FOR VALUE RECEIVED, APPLIANCE RECYCLING CENTERS OF AMERICA, INC., a corporation organized under the laws of the State of Minnesota ("ARCA"), **APPLIANCE RECYCLING CENTERS OF AMERICA-CALIFORNIA, INC.**, a corporation organized under the laws of the State of California ("ARCA-CA"), **ARCA CANADA INC.**, a corporation organized under the laws of the province of Ontario ("ARCA Canada", together with ARCA and ARCA-CA, collectively, the "Borrowers", and each a "Borrower"), hereby, jointly and severally, promise to pay to the order of **PNC BANK, NATIONAL ASSOCIATION** ("PNC"), at the office of Agent (as defined below) at the address set forth in the Loan Agreement (as defined below) or at any other place designated at any time by the holder hereof, in lawful money of the United States of America and in immediately available funds, the principal sum of TWO MILLION FIVE HUNDRED FIFTY THOUSAND DOLLARS (\$2,550,000) or such lesser sum which then represents PNC's Commitment Percentage of the aggregate unpaid principal amount of the Term Loan in equal and consecutive monthly installments of principal as set forth in the Loan Agreement, each of which installments of principal shall be due and payable in accordance with the terms of the Loan Agreement, together with interest on the principal amount hereunder remaining unpaid from time to time from the date hereof until this Term Loan Note is fully paid, at the rate or rates from time to time in effect under the Loan Agreement, provided, however, that the entire unpaid principal balance of this Term Loan Note shall be due and payable in full at the end of the Term, or earlier as provided in the Loan Agreement.

THIS TERM LOAN NOTE is executed and delivered under and pursuant to the terms of that certain Revolving Credit, Term Loan and Security Agreement, dated as of the date hereof (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement"), by and among Borrowers, the various financial institutions named therein or which hereafter become a party thereto as lenders ("Lenders") and PNC, in its capacity as agent for Lenders (in such capacity, "Agent") and in its capacity as a Lender. Capitalized terms used herein and not otherwise defined herein shall have the meanings provided in the Loan Agreement.

Each Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever as further set forth in the Loan Agreement.

This Term Loan Note is one of the Term Notes referred to in the Loan Agreement, which among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayments of the principal hereof prior to the maturity hereof and for the amendment or waiver of certain terms and conditions therein specified.

THIS TERM LOAN NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL SUBSTANTIVE LAWS OF THE STATE OF ILLINOIS.

IN WITNESS WHEREOF, the undersigned have executed this Note the day and year first written above intending to be legally bound hereby.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By: /s/Edward R. Cameron
Name: Edward R. Cameron
Title: President / CEO

APPLIANCE RECYCLING CENTERS OF AMERICA-CALIFORNIA, INC.

By: /s/Edward R. Cameron
Name: Edward R. Cameron
Title: President / CEO

ARCA CANADA INC.

By: /s/Edward R. Cameron
Name: Edward R. Cameron
Title: President / CEO

EXHIBIT 5.5(b)

FINANCIAL PROJECTIONS

(Delivered directly to Agent)

EXHIBIT 8.1(h)

FINANCIAL CONDITION CERTIFICATE

TO: PNC Bank, National Association ("PNC"), in connection with that certain Revolving Credit, Term Loan and Security Agreement dated of even date herewith (the "Loan Agreement"), by and among Appliance Recycling Centers of America, Inc., a Minnesota corporation ("ARCA"), Appliance Recycling Centers of America-California, Inc., a California corporation ("ARCA-CA"), ARCA Canada Inc., a corporation organized under the laws of the province of Ontario ("ARCA Canada" together with ARCA and ARCA-CA, the "Borrowers" and each individually a "Borrower"), the financial institutions which are now or which hereafter become a party thereto as lenders (referred to herein, collectively, as the "Lenders" and each, individually, a "Lender") and PNC, in its capacity as agent for the Lenders (in such capacity, the "Agent") and in its capacity as a Lender .

In connection with the Loan Agreement and the Other Documents, I hereby certify that, effective as of the execution of the Loan Agreement and each of the Other Documents, I am the duly elected, qualified and acting Chief Financial Officer of ARCA, and, solely in such capacity, I hereby conclude to my knowledge that:

The execution and delivery of the Loan Agreement and each of the Other Documents and the granting of any security interests or liens pursuant to the Loan Agreement and any of the Other Documents by Borrowers will not render any Borrower insolvent. I understand that, in this context, "insolvent" with respect to a Borrower means that the present saleable value of such Borrower's assets, calculated on an ongoing basis, is less than the amount of its liabilities.

The execution and delivery of the Loan Agreement and each of the Other Documents and the granting of any security interests or liens pursuant to the Loan Agreement and any of the Other Documents by Borrowers will not render any Borrower insolvent. I understand that, in this context, "insolvent" with respect to a Borrower means that the present saleable value of such Borrower's assets, calculated on an ongoing basis, is less than the amount of its liabilities.

I conclude that no Borrower will likely incur debts beyond its ability to pay as such debts mature. This conclusion is based, in part, upon my review of the projections provided by the Borrowers to the Agent ("Projections"), which project that Borrowers will have positive cash flow after paying all of their scheduled and anticipated indebtedness as it matures. I have concluded that the realization from Borrowers' assets in the ordinary and usual course of business will be sufficient to pay their recurring current debt, short term debt, and long term debt as such debts require.

I understand that the Agent and the Lenders are relying on the truth and accuracy of the foregoing in connection with the extensions of credit under the Loan Agreement and that no one else shall be entitled to rely on this Certificate. All initially capitalized terms used herein shall have the respective meanings ascribed to them in the Loan Agreement, unless specifically defined herein. Unless the context of this Certificate clearly requires otherwise, the term "or" includes the inclusive meaning represented by the phrase "and/or."

[SIGNATURE TO FOLLOW ON SEPARATE PAGE]

I hereby represent and certify, in my capacity as Chief Financial Officer of ARCA, without personal knowledge, that the foregoing information is true and correct and execute this certificate as of the date first written above.

/s/ Peter P. Hausback

Peter P. Hausback, Chief Financial Officer

EXHIBIT 16.3

FORM OF COMMITMENT TRANSFER SUPPLEMENT

COMMITMENT TRANSFER SUPPLEMENT, dated as of _____, 201 , by [_____] (the "Transferor Lender"), [_____], (the "Purchasing Lender"), and PNC Bank, National Association, as agent for the Lenders under the Revolving Credit, Term Loan and Security Agreement described below (in such capacity, the "Agent").

WITNESSETH

WHEREAS, this Commitment Transfer Supplement is being executed and delivered in accordance with Section 16.3 of that certain Revolving Credit, Term Loan and Security Agreement dated as of _____ (as may be amended, supplemented or otherwise modified from time to time in accordance with the terms thereof, the "Loan Agreement") by and among _____, _____, and _____ (the "Borrowers" and each a "Borrower"), the financial institutions which are now or which hereafter become a party thereto (collectively, the "Lenders") and the Agent.

WHEREAS, Purchasing Lender wishes to become a Lender party to the Loan Agreement; and

WHEREAS, the Transferor Lender is selling and assigning to Purchasing Lender rights, obligations and commitments under the Loan Agreement;

NOW, THEREFORE, the parties hereto hereby agree as follows:

All capitalized terms used herein which are not defined shall have the meanings given to them in the Loan Agreement.

XVII. Upon receipt by the Agent of four (4) counterparts of this Commitment Transfer Supplement, to each of which is attached a fully completed Schedule I, and each of which has been executed by the Transferor Lender, the Purchasing Lender and Agent, Agent will transmit to Transferor Lender and Purchasing Lender a Transfer Effective Notice, substantially in the form of Schedule II to this Commitment Transfer Supplement (a "Transfer Effective Notice"). Such Transfer Effective Notice shall set forth, inter alia, the date on which the transfer effected by this Commitment Transfer Supplement shall become effective (the "Transfer Effective Date"), which date unless otherwise noted therein, shall not be earlier than the first Business Day following the date such Transfer

Effective Notice is received. From and after the Transfer Effective Date, Purchasing Lender shall be a Lender party to the Loan Agreement for all purposes thereof.

XVIII. At or before 12:00 Noon (New York time) on the Transfer Effective Date, Purchasing Lender shall pay to Transferor Lender, in immediately available funds, an amount equal to the purchase price, as agreed between Transferor Lender and such Purchasing Lender (the "Purchase Price"), of the portion of the Advances being purchased by such Purchasing Lender (such Purchasing Lender's "Purchased Percentage") of the outstanding Advances and

other amounts owing to the Transferor Lender under the Loan Agreement and the Note(s) of Transferor Lender. Effective upon receipt by Transferor Lender of the Purchase Price from a Purchasing Lender, Transferor Lender hereby irrevocably sells, assigns and transfers to such Purchasing Lender, without recourse, representation or warranty, and Purchasing Lender hereby irrevocably purchases, takes and assumes from Transferor Lender, such Purchasing Lender's Purchased Percentage of the Advances and other amounts owing to the Transferor Lender under the Loan Agreement and such Note(s) together with all instruments, documents and collateral security pertaining thereto.

XIX. Transferor Lender has made arrangements with Purchasing Lender with respect to (i) the portion, if any, to be paid, and the date or dates for payment, by Transferor Lender to such Purchasing Lender of any fees heretofore received by Transferor Lender pursuant to the Loan Agreement prior to the Transfer Effective Date and (ii) the portion, if any, to be paid, and the date or dates of payment, by such Purchasing Lender to Transferor Lender of fees or interest received by such Purchasing Lender pursuant to the Loan Agreement from and after the Transfer Effective Date.

XX. (a) All principal payments that would otherwise be payable from and after the Transfer Effective Date to or for the account of Transferor Lender pursuant to the Loan Agreement and the Note(s) of Transferor Lender shall, instead, be payable to or for the account of Transferor Lender and Purchasing Lender, as the case may be, in accordance with their respective interests as reflected in this Commitment Transfer Supplement.

(b) All interest, fees and other amounts that would otherwise accrue for the account of Transferor Lender from and after the Transfer Effective Date pursuant to the Loan Agreement and the Note(s) of Transferor Lender shall, instead, accrue for the account of, and be payable to, Transferor Lender and Purchasing Lender, as the case may be, in accordance with their respective interests as reflected in this Commitment Transfer Supplement. In the event that any amount of interest, fees or other amounts accruing prior to the Transfer Effective Date was included in the Purchase Price paid by any Purchasing Lender, Transferor Lender and Purchasing Lender will make appropriate arrangements for payment by Transferor Lender to such Purchasing Lender of such amount upon receipt thereof from Borrower.

XXI. Concurrently with the execution and delivery hereof, Transferor Lender will provide to Purchasing Lender conformed copies of the Loan Agreement and all related documents delivered to Transferor Lender.

XXII. Each of the parties to this Commitment Transfer Supplement agrees that at any time and from time to time upon the written request of any other party, it will execute and deliver such further documents and do such further acts and things as such other party may reasonably request in order to effect the purposes of this Commitment Transfer Supplement.

XXIII. By executing and delivering this Commitment Transfer Supplement, Transferor Lender and Purchasing Lender confirm to and agree with each other and Agent and Lenders as follows: (i) other than the representation and warranty that it is the legal and beneficial owner of the interest being assigned hereby free and clear of any adverse claim, Transferor Lender makes no representation or warranty and assumes no responsibility with respect to any statements,

warranties or representations made in or in connection with the Loan Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Agreement, the Note(s) of Transferor Lender or any other instrument or document furnished pursuant thereto; (ii) Transferor Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of Borrowers or the performance or observance by Borrowers of any of the Obligations under the Loan Agreement, the Note(s) or any other instrument or document furnished pursuant hereto; (iii) Purchasing Lender confirms that it has received a copy of the Loan Agreement, together with copies of such financial statements and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Commitment Transfer Supplement; (iv) Purchasing Lender will, independently and without reliance upon Agent, Transferor Lender or any other Lenders and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Agreement; (v) Purchasing Lender appoints and authorizes Agent on its behalf to take such action as agent and to exercise such powers under the Loan Agreement and Other Documents as are delegated to the Agent by the terms thereof; (vi) Purchasing Lender agrees that it will perform all of its respective obligations as set forth in the Loan Agreement and Other Documents to be performed by each as a Lender; and (vii) Purchasing Lender represents and warrants to Transferor Lender, Lenders, Agent and Borrower that it is either (x) entitled to the benefits of an income tax treaty with the United States of America that provides for an exemption from the United States withholding tax on interest and other payments made by Borrower under the Loan Agreement and Other Documents or (y) is engaged in trade or business within the United States of America.

XXIV. Schedule I hereto sets forth the revised Commitment Percentage of Transferor Lender and the Commitment Percentage of Purchasing Lender as well as administrative information with respect to Purchasing Lender.

XXV. This Commitment Transfer Supplement shall be governed by, and construed in accordance with, the laws of the State of Illinois.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Commitment Transfer Supplement to be executed by their respective duly authorized officers on the date set forth above.

[]
as Transferor Lender

By: _____
Name: _____
Title: _____

[_____]
as Purchasing Lender

By: _____
Name: _____
Title: _____

PNC BANK, NATIONAL ASSOCIATION
as Agent

By: _____
Name: _____
Title: _____

Signature Page To Commitment Transfer Supplement

SCHEDULE I TO COMMITMENT TRANSFER SUPPLEMENT

LIST OF OFFICES, ADDRESSES FOR NOTICES AND COMMITMENT AMOUNTS

Revised Commitment Amount	\$
Revised Commitment Percentage	%
Commitment Amount	\$
Commitment Percentage	%

Addresses for Notices for [_____]

Attention:
Telephone:
Telecopier:

**Schedule 1.2
Permitted Encumbrances**

<u>Debtor</u>	<u>Secured Party</u>	<u>Filing Number</u>	<u>Collateral</u>
Appliance Recycling Centers of America, Inc.	Greatamerica Leasing Corporation	200610010824	Leased equipment Phone System
Appliance Recycling Centers of America, Inc.	Greatamerica Leasing Corporation	200612201380	Leased equipment, proceeds Phone System
Appliance Recycling Centers of America, Inc.	US Bancorp	200717362584	Specific equipment Operating Lease Loffler copiers
Appliance Recycling Centers of America, Inc.	Wirth Business Credit Inc.	200717530750	Leased equipment Screw Compactor
Appliance Recycling Centers of America, Inc.	US Bancorp	200719109501	Specific equipment
Appliance Recycling Centers of America, Inc.	US Bancorp	200719109525	Specific equipment
Appliance Recycling Centers of America, Inc.	US Bancorp	200719127319	Specific equipment
Appliance Recycling Centers of America, Inc.	Bank of America Leasing & Capital LLC	200810229283	Specific equipment, related accounts, general intangibles, investment property, deposit accounts, letter of credit rights, proceeds
Appliance Recycling Centers of America, Inc.	Greater Bay Bank NA	2008104472925	Specific equipment, proceeds Forklift
Appliance Recycling Centers of America, Inc.	US Bancorp	200810864927	Specific equipment

Appliance Recycling Centers of America, Inc.	US Bancorp	200916217361	Specific equipment
Appliance Recycling Centers of America, Inc.	De Lage Landen Financial Services, Inc.	201021248981	Leased equipment, proceeds
ARCA Canada Inc	De Lage Landen Financial Services Canada Inc.	657497385-200911091948 1531 0631	Equipment, Other, Motor Vehicles 2009 TCM FG25T6H VIN listed
ARCA Canada Inc	CIT Financial Ltd	645612408-200805291639 1616 8910	Equipment, Other
ARCA Canada Inc	De Lage Landen Financial Services Canada Inc	641905497-200801091947 1531 1017	Equipment, Other, Motor Vehicles 2009 FJ 160 VIN listed Plastec Baler
ARCA Canada Inc	De Lage Landen Financial Services Canada Inc	639938709-200710161950 1531 2325	Equipment, Other, Motor Vehicles 2001 Mitsubishi FG20B-KPS VIN listed Totaled Operating Lease

Schedule 1.2(a)
Cash Contributions to AAP Joint Venture

<u>Date</u>	<u>Purpose</u>	<u>Total</u>	<u>Loan Amount Outstanding</u>
10/26/09	Working Capital/Fund Operations	100,000.00	n/a
11/25/09	Working Capital/Fund Operations	75,000.00	n/a
12/22/09	Working Capital/Fund Operations	200,000.00	n/a
01/25/10	Working Capital/Fund Operations	100,000.00	n/a
02/11/10	Working Capital/Fund Operations	150,000.00	n/a
02/22/10	Working Capital/Fund Operations	75,000.00	n/a
03/11/10	Working Capital/Fund Operations	100,000.00	n/a
03/31/10	Working Capital/Fund Operations	100,000.00	n/a
04/07/10	URT Deposit	1,314,086.83	214,086.83
05/17/10	Working Capital/Fund Operations	50,000.00	50,000.00
07/30/10	GE Q2 Short-term Product Advance	106,230.03	Paid in Full
08/30/10	URT Construction Advance	25,000.00	25,000.00
09/24/10	URT Deposit	1,346,244.48	Paid in Full
11/29/10	GE Q3 Short-term Product Advance	305,847.13	100,000.00
Total Cash Transfers from ARCA		4,047,408.47	389,086.83

Schedule 4.5
Equipment and Inventory Locations, Chief Executive Office, Places of Business, Real Property

Chief Executive Office: 7400 Excelsior Boulevard, St. Louis Park, Minnesota 55426

See attached locations

See attached landlord information

Owned Real Property

Real property situated in the City of Compton, County of Los Angeles, State of California and is described as follows:

Parcels 1 and 2 of Parcel Map No. 21013, in the City of Compton, County of Los Angeles, State of California, as per map recorded in Book 233 Pages 7 and 8 of Parcel Map, in the Office of the County Recorder of said County.

Except therefrom that portion of said Parcel 2 lying southerly of the following described line:

Commencing at the Northwest corner of said Parcel 1, said point also lying on the Easterly line of Acacia Avenue, as shown on said Parcel Map No. 21013; thence along the Westerly lines of said Parcel 1 and 2, South 02°04'39" East a distance of 341.09 feet to the point of beginning; thence North 87°55'21" East 299.26 feet, more or less, to the Easterly line of said Parcel 2.

Except therefrom all oil, gas, minerals, and other hydrocarbon substances lying below the surface of said land, but with no right of surface entry as provided in deeds of record.

Schedule 4.15(h)
Deposit and Investment Accounts

See attached.

**Schedule 5.1
Consents**

None

**Schedule 5.2(a)
States of Qualification and Good Standing**

Appliance Recycling Centers of America, Inc., a Minnesota corporation

Appliance Recycling Centers of America, Inc., a Minnesota corporation, is qualified to do business in the following States:

Colorado
Georgia
Illinois
Indiana
Michigan
Missouri
North Carolina
Ohio
Pennsylvania
Texas
Washington

Appliance Recycling Centers of America-California, Inc., a California corporation

ARCA CANADA INC., a Canadian corporation

**Schedule 5.2(b)
Subsidiaries**

Appliance Recycling Centers of America-California, Inc., a California corporation and ARCA CANADA INC., a Canadian corporation are subsidiaries of Appliance Recycling Centers of America, Inc.

**Schedule 5.4
Federal Tax Identification Number**

Appliance Recycling Centers of America, Inc. (41-1454591)
Appliance Recycling Centers of America-California, Inc. (36-3893973)
ARCA CANADA INC. (849019120RC0001)

**Schedule 5.6
Prior Names**

Appliance Recycling Centers of America, Inc., fka On-Line Communications, Inc., pursuant to a merger between On-Line Communications, Inc. (MN) and Major Appliance Pickup Service, Inc. (FL), effective date of merger August 28, 1989.

**Schedule 5.8(b)
Litigation**

St. Louis Park, Minnesota Property: A lawsuit has been commenced by RKL Landholdings, LLC and Emad Y. Abed relating to the potential sale of the Company's St. Louis Park, Minnesota property. This property has been sold to a third party and all proceeds from the sale have been received by the Company. The claims made by the Plaintiffs in this matter have been alleged against both Appliance Recycling Centers of America, Inc. and Edward Cameron, individually. The claims relate to an originally executed Purchase Agreement and extensions thereto executed between the parties, which Purchase Agreement and extensions all expired by their own terms. The Plaintiffs have alleged various facts and claims, including promissory estoppel, unjust enrichment, conversion, fraud, tortious interference with prospective advantage, and breach of contract. The claims allege damages in excess of \$50,000, with the fraud claim alleging damages in excess of \$19,000,000. Your attention is directed to the Complaint for all relevant details and facts associated with the claims made in this lawsuit. This firm, on behalf of the Company and Mr. Cameron, has answered the Complaint and is vigorously defending and denying all claims. The Company brought

a motion for summary judgment to dismiss all of Plaintiffs' claims against the Company and the District Court, Hennepin County granted such relief and dismissed all claims of Plaintiffs against Defendants. Pursuant to Plaintiffs' right to appeal this ruling, Plaintiffs have appealed the decision of the District Court to the Minnesota Court of Appeals. The matter has been briefed, but has not yet been argued. The Company is confident that the Court of Appeals will uphold the District Court's ruling dismissing Plaintiffs' claims in their entirety.

Claim of Joseph Berta/ARCA-Canada: In 2007, the Company entered into an agreement with AMTIM Capital for AMTIM to act as ARCA's representative to market ARCA's recycling services in Canada under an arrangement which pays AMTIM for revenue generated by recycling services in Canada all as more fully set forth in the agreements between the parties. A dispute has arisen between AMTIM and the Company with respect to the calculation of amounts due AMTIM pursuant to said agreements. AMTIM claims a discrepancy in the calculation of more than \$600,000. The parties have met and attempted to mediate the dispute between them with respect to the calculation of the amounts due under the agreements. No resolution has yet been made and no action has been commenced by either party although AMTIM has threatened to commence litigation against the Company. The Company characterizes AMTIM's likelihood of success on any potential claim as remote.

**Schedule 5.8(d)
Plans**

Appliance Recycling Centers of America, Inc. Employee Dental Option
 Appliance Recycling Centers of America, Inc. Cafeteria Plan
 Appliance Recycling Centers of America, Inc. Medica Plan Documents
 Appliance Recycling Centers of America, Inc. Long Term and Short Term Disability Plan and Supplemental Life Policy

**Schedule 5.9
Intellectual Property, Source Code Escrow Agreements**

ApplianceSmart is an assumed name for the retail appliance stores of ARCA
 ApplianceSmart Factory Outlet is a name for the retail appliance stores of ARCA

See registered trademarks attached

There are no Source Code Escrow Agreements

<u>Mark</u>	<u>Status/Type</u>	<u>Class</u>	<u>Goods and Services</u>	<u>Symbol</u>	<u>Filing Date/ Serial Number</u>	<u>Registration Date/Number</u>	<u>Affidavit of Use Due</u>	<u>Expiration Date</u>	<u>Comments</u>
APPLIANCESMART	Registered Service Mark	35	Retail store services featuring new and used household appliances	®	4/29/02 76/401,497	2,677,930 1/21/03	Filed 12/8/2008	1/21/2013	
ARCA INCORPORATED and Design 	Registered Service Mark	37 40	Collection of used appliances for recycling Recycling services in the field of used appliances	®	11/19/90 74/117,164	3/31/92 1,681,447	Filed 9/4/97	3/31/2012	
REFRIGERATOR ROUNDUP	Registered Service Mark	37 and 40	37 — Collection of used appliances for recycling 40 — Recycling services in the field of used appliances	®	9/4/07 77/270596	10/21/08 3,519,141	Due between 10/21/2013 and 10/21/2014	10/21/2018	

**Schedule 5.10
Licenses and Permits**

See attached lists

**Schedule 5.14
Labor Disputes**

None

**Schedule 5.27
Equity Interests**

Number of authorized shares are 12,000,000: 10,000,000 Common Shares and 2,000,000 Preferred Shares

ARCA is a publicly traded company; 5%+ shareholders are as follows:

- Perkins Capital Management Inc., 16.2% Common Stock, No options or warrants
- Medallion Capital, Inc., 10.7% Common Stock, No options or warrants
- Sandra Pessins, 7.2% Common Stock, No options or warrants
- Norman Pessins, 1.7% Common Stock, No options or warrants
- General Electric, 4.6% Common Stock, Warrant Agreement to purchase 254,042 shares of Common Stock

Options issued to employees and directors of the company — See attached listing

**Appliance Recycling Centers of America, Inc.
Stock Options**

2006 STOCK OPTION PLAN

TYPE	OPTIONEE	GRANT DATE	OPTIONS GRANTED	OPTION PRICE PER SHARE	EXPIRATION DATE	VESTING DATES	OPTIONS VESTING	OPTIONS OUTSTANDING
ISO	Bradley Bremer	01/25/07	12,500	2.42	01/25/14	01/25/08	12,500	12,500
ISO	Bradley Bremer	01/25/07	12,500	2.42	01/25/14	01/25/09	12,500	12,500
NQO	Duane Carlson	05/10/07	7,500	3.81	05/10/17	11/10/07	7,500	7,500
ISO	Jack Cameron	01/18/08	25,000	5.27	01/18/15	01/18/09	25,000	25,000
ISO	Jack Cameron	01/18/08	25,000	5.27	01/18/15	01/18/10	25,000	25,000
ISO	Bradley Bremer	01/18/08	3,750	5.27	01/18/15	01/18/09	3,750	3,750
ISO	Bradley Bremer	01/18/08	3,750	5.27	01/18/15	01/18/10	3,750	3,750
ISO	Todd Lein	01/18/08	3,750	5.27	01/18/15	01/18/09	3,750	3,750
ISO	Todd Lein	01/18/08	3,750	5.27	01/18/15	01/18/10	3,750	3,750
ISO	Jeff Woloz	01/18/08	3,750	5.27	01/18/15	01/18/09	3,750	3,750
ISO	Jeff Woloz	01/18/08	3,750	5.27	01/18/15	01/18/10	3,750	3,750
ISO	Bruce Wall	01/18/08	2,500	5.27	01/18/15	01/18/09	2,500	2,500
ISO	Bruce Wall	01/18/08	2,500	5.27	01/18/15	01/18/10	2,500	2,500
ISO	Richard Christensen	01/18/08	2,500	5.27	01/18/15	01/18/09	2,500	2,500
ISO	Richard Christensen	01/18/08	2,500	5.27	01/18/15	01/18/10	2,500	2,500
ISO	Cheri Gibbons	01/18/08	2,500	5.27	01/18/15	01/18/09	2,500	2,500
ISO	Cheri Gibbons	01/18/08	2,500	5.27	01/18/15	01/18/10	2,500	2,500
ISO	Rachel Holmes	01/18/08	2,500	5.27	01/18/15	01/18/09	2,500	2,500
ISO	Rachel Holmes	01/18/08	2,500	5.27	01/18/15	01/18/10	2,500	2,500
ISO	Cynthia Janzig	01/18/08	2,500	5.27	01/18/15	01/18/09	2,500	2,500
ISO	Cynthia Janzig	01/18/08	2,500	5.27	01/18/15	01/18/10	2,500	2,500
ISO	Stephanie Schlachter	01/18/08	500	5.27	01/18/15	01/18/09	500	500
ISO	Stephanie Schlachter	01/18/08	500	5.27	01/18/15	01/18/10	500	500
ISO	Rick Christensen	01/18/08	500	5.27	01/18/15	01/18/09	500	500
ISO	Rick Christensen	01/18/08	500	5.27	01/18/15	01/18/10	500	500
ISO	Barb Larson	01/18/08	500	5.27	01/18/15	01/18/09	500	500
ISO	Barb Larson	01/18/08	500	5.27	01/18/15	01/18/10	500	500
ISO	Laura Torrini	01/18/08	500	5.27	01/18/15	01/18/09	500	500
ISO	Laura Torrini	01/18/08	500	5.27	01/18/15	01/18/10	500	500
ISO	Candy Hatcher	01/18/08	500	5.27	01/18/15	01/18/09	500	500
ISO	Candy Hatcher	01/18/08	500	5.27	01/18/15	01/18/10	500	500
ISO	Sara Kimm	01/18/08	500	5.27	01/18/15	01/18/09	500	500
ISO	Sara Kimm	01/18/08	500	5.27	01/18/15	01/18/10	500	500
ISO	Victoria Czypryna	01/18/08	500	5.27	01/18/15	01/18/09	500	500
ISO	Victoria Czypryna	01/18/08	500	5.27	01/18/15	01/18/10	500	500
ISO	Tabatha Carlson	01/18/08	250	5.27	01/18/15	01/18/09	250	250
ISO	Tabatha Carlson	01/18/08	250	5.27	01/18/15	01/18/10	250	250
ISO	Charlie Jones-Burge	01/18/08	250	5.27	01/18/15	01/18/09	250	250
ISO	Charlie Jones-Burge	01/18/08	250	5.27	01/18/15	01/18/10	250	250
ISO	Justin Woessner	01/18/08	250	5.27	01/18/15	01/18/09	250	250
ISO	Justin Woessner	01/18/08	250	5.27	01/18/15	01/18/10	250	250
ISO	Pete Mares	01/18/08	500	5.27	01/18/15	01/18/09	500	500
ISO	Pete Mares	01/18/08	500	5.27	01/18/15	01/18/10	500	500
ISO	Elsie Smith	01/18/08	500	5.27	01/18/15	01/18/09	500	500
ISO	Elsie Smith	01/18/08	500	5.27	01/18/15	01/18/10	500	500
ISO	Rich Burgess	01/18/08	500	5.27	01/18/15	01/18/09	500	500
ISO	Rich Burgess	01/18/08	500	5.27	01/18/15	01/18/10	500	500
ISO	Rob Dallman	01/18/08	250	5.27	01/18/15	01/18/09	250	250
ISO	Rob Dallman	01/18/08	250	5.27	01/18/15	01/18/10	250	250
ISO	Marlin Hurt	01/18/08	500	5.27	01/18/15	01/18/09	500	500
ISO	Marlin Hurt	01/18/08	500	5.27	01/18/15	01/18/10	500	500
ISO	Gabe Nielson	01/18/08	500	5.27	01/18/15	01/18/09	500	500
ISO	Gabe Nielson	01/18/08	500	5.27	01/18/15	01/18/10	500	500
ISO	Todd Morehart	01/18/08	500	5.27	01/18/15	01/18/09	500	500
ISO	Todd Morehart	01/18/08	500	5.27	01/18/15	01/18/10	500	500
ISO	Haler Alanis	01/18/08	1,250	5.27	01/18/15	01/18/09	1,250	1,250
ISO	Haler Alanis	01/18/08	1,250	5.27	01/18/15	01/18/10	1,250	1,250
ISO	Jason Carlson	01/18/08	1,250	5.27	01/18/15	01/18/09	1,250	1,250

TYPE	OPTIONEE	GRANT DATE	OPTIONS GRANTED	OPTION PRICE PER SHARE	EXPIRATION DATE	VESTING DATES	OPTIONS VESTING	OPTIONS OUTSTANDING
ISO	Jason Carlson	01/18/08	1,250	5.27	01/18/15	01/18/10	1,250	1,250
ISO	David Priest	01/18/08	1,250	5.27	01/18/15	01/18/09	1,250	1,250
ISO	David Priest	01/18/08	1,250	5.27	01/18/15	01/18/10	1,250	1,250
ISO	Rick Urbanski	01/18/08	1,250	5.27	01/18/15	01/18/09	1,250	1,250
ISO	Rick Urbanski	01/18/08	1,250	5.27	01/18/15	01/18/10	1,250	1,250
ISO	Carl Dematteo	01/18/08	1,250	5.27	01/18/15	01/18/09	1,250	1,250
ISO	Carl Dematteo	01/18/08	1,250	5.27	01/18/15	01/18/10	1,250	1,250
ISO	Ron Odum	01/18/08	1,250	5.27	01/18/15	01/18/09	1,250	1,250
ISO	Ron Odum	01/18/08	1,250	5.27	01/18/15	01/18/10	1,250	1,250
ISO	Rick Stuber	01/18/08	1,250	5.27	01/18/15	01/18/09	1,250	1,250
ISO	Rick Stuber	01/18/08	1,250	5.27	01/18/15	01/18/10	1,250	1,250
ISO	Brian Bell	01/18/08	1,250	5.27	01/18/15	01/18/09	1,250	1,250
ISO	Brian Bell	01/18/08	1,250	5.27	01/18/15	01/18/10	1,250	1,250

ISO	David Findley	01/18/08	1,250	5.27	01/18/15	01/18/10	1,250	1,250
ISO	David Findley	01/18/08	1,250	5.27	01/18/15	01/18/10	1,250	1,250
ISO	Peter Hausback	02/15/08	20,000	5.86	02/15/15	02/15/09	20,000	20,000
ISO	Peter Hausback	02/15/08	20,000	5.86	02/15/15	02/15/10	20,000	20,000
NQO	Thomas Hunt	02/27/08	7,500	5.26	02/27/18	08/27/08	7,500	7,500
NQO	Glynnis Jones	03/05/08	7,500	5.90	03/05/18	09/05/08	7,500	7,500
NQO	John Pagnuco	03/05/08	3,000	5.90	03/05/18	09/05/08	3,000	3,000
NQO	Morgan Wolf	03/10/08	3,750	5.05	03/10/15	03/10/09	3,750	3,750
NQO	Morgan Wolf	03/10/08	3,750	5.05	03/10/15	03/10/10	3,750	3,750
ISO	Bradley Bremer	03/10/08	1,250	5.05	03/10/15	03/10/09	1,250	1,250
ISO	Bradley Bremer	03/10/08	1,250	5.05	03/10/15	03/10/10	1,250	1,250
NQO	Duane Carlson	05/15/08	7,500	6.33	05/15/18	11/15/08	7,500	7,500
ISO	Jeff Cammerrer	07/28/08	4,000	6.41	07/28/15	07/28/09	4,000	4,000
ISO	Jeff Cammerrer	07/28/08	4,000	6.41	07/28/15	07/28/10	4,000	4,000
ISO	Rahsaan White	12/01/08	750	2.46	12/01/15	12/01/09	750	750
ISO	Rahsaan White	12/01/08	750	2.46	12/01/15	12/01/10	750	750
ISO	Jeffrey Brown	12/01/08	20,000	2.46	12/01/15	12/01/09	20,000	20,000
ISO	Jeffrey Brown	12/01/08	20,000	2.46	12/01/15	12/01/10	20,000	20,000
ISO	Greg Guentzel	05/14/09	2,500	1.87	05/14/16	05/14/10	2,500	2,500
ISO	Greg Guentzel	05/14/09	2,500	1.87	05/14/16	05/14/11	2,500	2,500
ISO	Paul Carns	05/14/09	1,250	1.87	05/14/16	05/14/10	1,250	1,250
ISO	Paul Carns	05/14/09	1,250	1.87	05/14/16	05/14/11	1,250	1,250
NQO	Duane Carlson	05/14/09	7,500	1.87	05/14/19	11/14/09	7,500	7,500
NQO	Thomas Hunt	05/14/09	7,500	1.87	05/14/19	11/14/09	7,500	7,500
NQO	Glynnis Jones	05/14/09	7,500	1.87	05/14/19	11/14/09	7,500	7,500
NQO	Morgan Wolf	05/14/09	7,500	1.87	05/14/19	11/14/09	7,500	7,500
ISO	Cheri Gibbons	11/11/09	1,250	2.22	11/11/16	11/11/10	1,250	1,250
ISO	Angela Washin	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	Bradley Bremer	11/11/09	4,800	2.22	11/11/16	11/11/10	4,800	4,800
ISO	Barb Larson	11/11/09	1,000	2.22	11/11/16	11/11/10	1,000	1,000
ISO	Bruce Wall	11/11/09	1,750	2.22	11/11/16	11/11/10	1,750	1,750
ISO	Deanna Hanson	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	Candy Hatcher	11/11/09	1,000	2.22	11/11/16	11/11/10	1,000	1,000
ISO	Cynthia Janzig	11/11/09	1,750	2.22	11/11/16	11/11/10	1,750	1,750
ISO	Charlie Jones-Burge	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	David Findley	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	Jack Cameron	11/11/09	8,500	2.22	11/11/16	11/11/10	8,500	8,500
ISO	Greg Guentzel	11/11/09	1,500	2.22	11/11/16	11/11/10	1,500	1,500
ISO	Haler Alanis	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	Jim Albers	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	Jeffrey Brown	11/11/09	1,750	2.22	11/11/16	11/11/10	1,750	1,750
ISO	Marlin Hurt	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	Jeff Cammerrer	11/11/09	1,750	2.22	11/11/16	11/11/10	1,750	1,750
ISO	Kevin McDonald	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	Laura Torrini	11/11/09	500	2.22	11/11/16	11/11/10	500	500

TYPE	OPTIONEE	GRANT DATE	OPTIONS GRANTED	OPTION PRICE PER SHARE	EXPIRATION DATE	VESTING DATES	OPTIONS VESTING	OPTIONS OUTSTANDING
ISO	Marilynn Grambsch	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	Rachel Holmes	11/11/09	2,000	2.22	11/11/16	11/11/10	2,000	2,000
ISO	Paul Carns	11/11/09	1,000	2.22	11/11/16	11/11/10	1,000	1,000
ISO	Peter Hausback	11/11/09	5,400	2.22	11/11/16	11/11/10	5,400	5,400
ISO	Pete Mares	11/11/09	1,500	2.22	11/11/16	11/11/10	1,500	1,500
ISO	Rick Christensen	11/11/09	1,000	2.22	11/11/16	11/11/10	1,000	1,000
ISO	Sara Kimm	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	Richard Christensen	11/11/09	1,750	2.22	11/11/16	11/11/10	1,750	1,750
ISO	Rahsaan White	11/11/09	1,000	2.22	11/11/16	11/11/10	1,000	1,000
ISO	Shanna Gebhard	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	Shamara Brock	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	Victoria Czupryna	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	Stephanie Schlachter	11/11/09	1,000	2.22	11/11/16	11/11/10	1,000	1,000
ISO	Todd Lein	11/11/09	1,000	2.22	11/11/16	11/11/10	1,000	1,000
ISO	Todd Morehart	11/11/09	500	2.22	11/11/16	11/11/10	500	500
ISO	Tiffany Olson	11/11/09	1,000	2.22	11/11/16	11/11/10	1,000	1,000
ISO	Peter Hausback	05/13/10	20,000	3.55	05/13/17	05/13/11	20,000	20,000
ISO	Bradley Bremer	05/13/10	15,000	3.55	05/13/17	05/13/11	15,000	15,000
ISO	Rachel Holmes	05/13/10	15,000	3.55	05/13/17	05/13/11	15,000	15,000
ISO	Jeffrey Brown	05/13/10	2,000	3.55	05/13/17	05/13/11	2,000	2,000
ISO	Richard Christensen	05/13/10	2,000	3.55	05/13/17	05/13/11	2,000	2,000
ISO	Bruce Wall	05/13/10	2,000	3.55	05/13/17	05/13/11	2,000	2,000
ISO	Jeff Cammerrer	05/13/10	15,000	3.55	05/13/17	05/13/11	15,000	15,000
ISO	Greg Guentzel	05/13/10	1,750	3.55	05/13/17	05/13/11	1,750	1,750
ISO	Cynthia Janzig	05/13/10	1,750	3.55	05/13/17	05/13/11	1,750	1,750
ISO	Todd Lein	05/13/10	1,500	3.55	05/13/17	05/13/11	1,500	1,500
ISO	Cheri Gibbons	05/13/10	1,500	3.55	05/13/17	05/13/11	1,500	1,500
ISO	Rick Christensen	05/13/10	1,500	3.55	05/13/17	05/13/11	1,500	1,500
ISO	Pete Mares	05/13/10	1,500	3.55	05/13/17	05/13/11	1,500	1,500
ISO	Paul Carns	05/13/10	1,000	3.55	05/13/17	05/13/11	1,000	1,000
ISO	Stephanie Schlachter	05/13/10	1,000	3.55	05/13/17	05/13/11	1,000	1,000
ISO	Rahsaan White	05/13/10	1,000	3.55	05/13/17	05/13/11	1,000	1,000
ISO	Barb Larson	05/13/10	1,000	3.55	05/13/17	05/13/11	1,000	1,000
ISO	Candy Hatcher	05/13/10	1,000	3.55	05/13/17	05/13/11	1,000	1,000
NQO	Morgan Wolf	05/13/10	7,500	3.55	05/13/20	11/13/10	7,500	7,500
NQO	Duane Carlson	05/13/10	7,500	3.55	05/13/20	11/13/10	7,500	7,500
NQO	Glynnis Jones	05/13/10	7,500	3.55	05/13/20	11/13/10	7,500	7,500
ISO	Jack Cameron	08/16/10	35,000	2.30	08/16/17	08/16/11	35,000	35,000
NQO	Dean Pickereil	01/03/11	7,500	2.30	01/03/21	07/03/11	7,500	7,500
Totals			529,700				529,700	529,700

Appliance Recycling Centers of America, Inc.
Stock Options

1997 STOCK OPTION PLAN

TYPE	OPTIONEE	GRANT DATE	OPTIONS GRANTED	OPTION PRICE PER SHARE	EXPIRATION DATE	VESTING DATES	OPTIONS VESTING	OPTIONS OUTSTANDING
NQO	Duane Carlson	04/25/02	7,500	4.05000	04/25/12	10/25/02	7,500	7,500
NQO	Marvin Goldstein	04/25/02	7,500	4.05000	04/25/12	10/25/02	7,500	7,500
ISO	Bruce Wall	05/05/05	500	2.80000	05/05/12	05/05/06	500	500

ISO	Bruce Wall	05/05/05	500	2.80000	05/05/12	05/05/07	500	500
ISO	Bradley Bremer	05/05/05	2,500	2.80000	05/05/12	05/05/06	2,500	2,500
ISO	Bradley Bremer	05/05/05	2,500	2.80000	05/05/12	05/05/07	2,500	2,500
ISO	Richard Christensen	05/05/05	500	2.80000	05/05/12	05/05/06	500	500
ISO	Richard Christensen	05/05/05	500	2.80000	05/05/12	05/05/07	500	500
ISO	Rick Christensen	05/05/05	500	2.80000	05/05/12	05/05/06	500	500
ISO	Rick Christensen	05/05/05	500	2.80000	05/05/12	05/05/07	500	500
ISO	Rachel Holmes	05/05/05	500	2.80000	05/05/12	05/05/06	500	500
ISO	Rachel Holmes	05/05/05	500	2.80000	05/05/12	05/05/07	500	500
ISO	Cyndy Janzig	05/05/05	500	2.80000	05/05/12	05/05/06	500	500
ISO	Cyndy Janzig	05/05/05	500	2.80000	05/05/12	05/05/07	500	500
ISO	Sara Kimm	05/05/05	500	2.80000	05/05/12	05/05/06	500	500
ISO	Sara Kimm	05/05/05	500	2.80000	05/05/12	05/05/07	500	500
NQO	Duane Carlson	05/04/06	7,500	4.32000	05/04/16	11/04/06	7,500	7,500
Totals			33,500				33,500	33,500

**Schedule 5.28
Commercial Tort Claims**

None

**Schedule 5.29
Letter of Credit Rights**

None

**Schedule 5.30
Material Contracts**

See attached lists

**Schedule 7.3
Guarantees**

None



Term Loan Note

\$2,100,000

January 24, 2011

FOR VALUE RECEIVED, ARCA Advanced Processing, LLC, a Minnesota limited liability company (the "**Borrower**"), promises to pay to the order of **PNC BANK, NATIONAL ASSOCIATION** (the "**Bank**"), in lawful money of the United States of America in immediately available funds at its offices located at Two Tower Center Boulevard, East Brunswick, New Jersey 08816, or at such other location as the Bank may designate from time to time, the principal sum of **TWO MILLION ONE HUNDRED THOUSAND DOLLARS** (\$2,100,000), together with interest accruing on the outstanding principal balance from the date hereof, all as provided below.

This Term Loan Note is entered into in connection with that certain Revolving Credit, Term Loan and Security Agreement (as amended, modified or supplemented from time to time, the "**Loan Agreement**") among Appliance Recycling Centers of America, Inc., a Minnesota corporation, Appliance Recycling Centers of America-California, Inc., a California corporation, ARCA Canada Inc., a corporation organized under the laws of the province of Ontario (collectively, the "**Revolver Borrowers**"), the financial institutions party thereto (the "**Lenders**") and Bank, as agent for the Lenders (in such capacity, "**Agent**")

1. **Rate of Interest.** Amounts outstanding under this Note will bear interest at a rate per annum as follows:

- (i) **"Interest Rate"**. A rate of interest per annum which is at all times equal to (A) the Alternate Base Rate plus (B) one and three quarters of one percent (1.75%). If and when the Alternate Base Rate (or any component thereof) changes, the rate of interest will change automatically without notice to the Borrower, effective on the date of any such change.

Interest hereunder will be calculated based on the actual number of days that principal is outstanding over a year of 360 days. In no event will the rate of interest hereunder exceed the maximum rate allowed by law.

For purposes hereof, the following terms shall have the following meanings:

"Alternate Base Rate" shall mean, for any day, a rate per annum equal to the highest of (i) the Base Rate in effect on such day, (ii) the Federal Funds Open Rate in effect on such day plus one half of one-percent (1/2 of 1%), and (iii) the sum of the Daily LIBOR Rate in effect on such day plus one percent (1.0%), so long as a Daily LIBOR Rate is offered, ascertainable and not unlawful

"Base Rate" shall mean the base commercial lending rate of BANK as publicly announced to be in effect from time to time, such rate to be adjusted automatically, without notice, on the effective date of any change in such rate. This rate of interest is determined from time to time by BANK as a means of pricing some loans to its customers and is neither tied to any external rate of interest or index nor does it necessarily reflect the lowest rate of interest actually charged by BANK to any particular class or category of customers of BANK.

"Business Day" shall mean any day other than Saturday or Sunday or a legal holiday on which commercial banks are authorized or required by law to be closed for business in East Brunswick, New Jersey.

"Daily LIBOR Rate" shall mean, for any day, the rate per annum determined by the Bank by dividing (x) the Published Rate by (y) a number equal to 1.00 minus the Reserve Percentage.

"Federal Funds Open Rate" shall mean, for any day, the rate per annum (based on a year of 360 days and actual days elapsed) which is the daily federal funds open rate as quoted by ICAP North America, Inc. (or any successor) as set forth on the Bloomberg Screen BTMM for that day opposite the caption "OPEN" (or on such other substitute Bloomberg Screen that displays such rate), or as set forth on such other recognized electronic source used for the purpose of displaying such rate as selected by the Bank (an "Alternate Source") (or if such rate for such day does not appear on the Bloomberg Screen BTMM (or any substitute screen) or on any Alternate Source, or if there shall at any time, for any reason, no longer exist a Bloomberg Screen BTMM (or any substitute screen) or any Alternate Source, a comparable replacement rate determined by the Bank at such time (which determination shall be conclusive absent manifest error); provided however, that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the "open" rate on the immediately preceding Business Day. The rate of interest charged shall be adjusted as of each Business Day based on changes in the Federal Funds Open Rate without notice to the Borrower.

"Published Rate" shall mean the rate of interest published each Business Day in the Wall Street Journal "Money Rates" listing under the caption "London Interbank Offered Rates" for a one month period (or, if no such rate is published therein for any reason, then the Published Rate shall be the eurodollar rate for a one month period as published in another publication selected by the Bank).

All capitalized term used but not defined herein shall have the meaning ascribed thereto in the Loan Agreement.

2. **Payment of Interest.** The Borrower shall pay accrued interest on the unpaid principal balance of this Note in arrears on the first day of each month during the term hereof and shall pay all outstanding amounts, at maturity, whether by acceleration of this Note or otherwise.

3. **Payment of Principal.** All outstanding principal, together with all accrued interest, shall be due and payable in full on June 30, 2011 (the "**Maturity Date**") or earlier UPON DEMAND.

If any payment under this Note shall become due on a Saturday, Sunday or public holiday under the laws of the State where the Bank's office indicated above is located, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing interest in connection with such payment. The Borrower hereby authorizes the Bank to charge any of Borrower's deposit account at the Bank for any payment when due hereunder. The Revolver Borrowers hereby authorize the Bank to make a Revolving Advance under the Loan Agreement for any payment when due hereunder. Payments received will be applied to charges, fees and expenses (including attorneys' fees), accrued interest and principal in any order the Bank may choose, in its sole discretion.

4. **Default Rate.** Upon maturity, whether by acceleration, demand or otherwise, and at the Bank's option upon the occurrence of any Event of Default (as hereinafter defined) and during the continuance thereof, all amounts outstanding under this Note shall bear interest at a rate per annum (based on the actual

number of days that principal is outstanding over a year of 360 days) which shall be two percentage points (2.0%) in excess of the Interest Rate in effect from time to time under this Note but not more than the maximum rate allowed by law (the “**Default Rate**”). The Default Rate shall continue to apply whether or not judgment shall be entered on this Note.

5. **Prepayment.** The Borrower shall have the right to prepay any amount hereunder at any time and from time to time, in whole or in part.

6. **Negative Covenants.** Borrower shall not, until satisfaction of all the obligations owing under this Note:

(a) **Merger, Consolidation, Acquisition and Sale of Assets.** (i) Enter into any merger, consolidation or other reorganization with or into any other Person or acquire all or a substantial portion of the assets or Equity Interests of any Person or permit any other Person to consolidate with or merge with it; or

(ii) Sell, lease, transfer or otherwise dispose of any of its properties or assets except Inventory in the Ordinary Course of Business;

(b) **Creation of Liens.** Create or suffer to exist any Lien or transfer upon or against any of its property or assets now owned or hereafter acquired, except Permitted Encumbrances;

(c) **Guarantees.** Become liable upon the obligations or liabilities of any Person by assumption, endorsement or guaranty thereof or otherwise (other than to Bank) except the endorsement of checks in the Ordinary Course of Business; or

(d) **Indebtedness.** Create, incur, assume or suffer to exist any Indebtedness (exclusive of trade debt) except in respect of Indebtedness to Bank.

7. **Increased Costs.** In the event that any Applicable Law, treaty or governmental regulation, or any change therein or in the interpretation or application thereof, or compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other financial, monetary or other authority, shall:

(a) subject Bank to any tax of any kind whatsoever with respect to this Note or change the basis of taxation of payments to Bank of principal, fees, interest or any other amount payable hereunder (except for changes in the rate of tax on the overall net income of Bank by the jurisdiction in which it maintains its principal office);

(b) impose, modify or hold applicable any reserve, special deposit, assessment or similar requirement against assets held by, or deposits in or for the account of, advances or loans by, or other credit extended by, any office of Bank, including pursuant to Regulation D of the Board of Governors of the Federal Reserve System; or impose on Bank any other condition with respect to this Note;

(c) and the result of any of the foregoing is to increase the cost to Bank of making, renewing or maintaining its loans hereunder by an amount that Bank deems to be material or to reduce the amount of any payment (whether of principal, interest or otherwise) by an amount that Bank deems to be material, then, in any case Borrower shall promptly pay Bank, upon its demand, such additional amount as will compensate Bank for such additional cost or such reduction, as the case may be. Bank shall certify the amount of such additional cost or reduced amount to Borrower, and such certification shall be conclusive absent manifest error.

Borrower shall not be under any obligation to compensate Bank under this Section 7 with respect to increased costs or reductions with respect to any period prior to the date that is 180 days prior to such request; provided further, that the foregoing limitation shall not apply to any increased costs or reductions arising out of the retroactive application of any change in law within such 180 day period.

8. **Capital Adequacy.** (a) In the event that Agent or any Lender shall have determined that any Applicable Law, rule, regulation or guideline regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any Governmental Body, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Bank with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on Bank's capital as a consequence of its obligations hereunder to a level below that which Bank could have achieved but for such adoption, change or compliance (taking into consideration Bank's policies with respect to capital adequacy) by an amount deemed by Bank to be material, then, from time to time, Borrower shall pay upon demand (including documentation supporting such request) to Bank such additional amount or amounts as will compensate Bank for such reduction. In determining such amount or amounts, Bank may use any reasonable averaging or attribution methods. The protection of this Section 8 shall be available to Bank regardless of any possible contention of invalidity or inapplicability with respect to the Applicable Law, regulation or condition.

(b) A certificate of Bank setting forth such amount or amounts as shall be necessary to compensate Bank with respect to Section 8 hereof when delivered to Borrower shall be conclusive absent manifest error.

9. **Other Loan Documents / Collateral.** This Note is issued in connection with the Loan Agreement and is secured by the Collateral (as defined in the Loan Agreement) and the Collateral, as defined in that certain Security Agreement dated the date hereof executed by Borrower in favor of Bank (the “**Security Agreement**”).

10. **Events of Default.** The occurrence of any of the following events will be deemed to be an “**Event of Default**” under this Note: (i) the nonpayment of any principal, interest or other indebtedness under this Note when due; (ii) the occurrence of any Event of Default, as defined in and under the Loan Agreement or Security Agreement; (iii) the occurrence of any event of default or any default and the lapse of any notice or cure period, or Borrower's failure to observe or perform any covenant or other agreement, under or contained in this Note or any other document now or in the future evidencing or securing any debt, liability or obligation of Borrower to the Bank; (iv) any representation or warranty made or deemed by Borrower in this Note or any other document now or in the future evidencing or securing any debt, liability or obligation of Borrower to the Bank shall prove to have been misleading in any material respect on the date when made or deemed to have been made; (v) the filing by or against Borrower of any proceeding in bankruptcy, receivership, insolvency, reorganization, liquidation, conservatorship or similar proceeding (and, in the case of any such proceeding instituted against Borrower, such proceeding is not dismissed or stayed within thirty (30) days of the commencement thereof; (vi) any assignment by Borrower for the benefit of creditors, or any levy, garnishment, attachment or similar proceeding is instituted against any property of Borrower held by or deposited with the Bank; (vii) a default with respect to any other indebtedness of Borrower for

borrowed money, if the effect of such acceleration is to cause or permit the acceleration of such debt; (viii) the commencement of any foreclosure or forfeiture proceeding, execution or attachment against any collateral securing the obligations of Borrower to the Bank; (ix) the entry of a final judgment against Borrower and the failure of Borrower to discharge the judgment within ten (10) days of the entry thereof; (x) any material adverse change in Borrower's business, assets, operations, financial condition or results of operations; (xi) Borrower ceases doing business as a going concern; or (xii) any representation or warranty made by Borrower to the Bank in any documents now or in the future evidencing or securing the obligations of Borrower to the Bank, is false, erroneous or misleading in any material respect.

Upon the occurrence of an Event of Default: (a) the Bank shall be under no further obligation to make advances hereunder; (b) if an Event of Default specified in clause (iv) or (v) above shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder shall be immediately due and payable without demand or notice of any kind; (c) if any other Event of Default shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder, at the Bank's option and without demand or notice of any kind, may be accelerated and become immediately due and payable; (d) at the Bank's option, this Note will bear interest at the Default Rate from the date of the occurrence of the Event of Default; and (e) the Bank may exercise from time to time any of the rights and remedies available under the Security Agreement or under applicable law.

11. Right of Setoff. In addition to all liens upon and rights of setoff against the Borrower's money, securities or other property given to the Bank by law, the Bank shall have, with respect to the Borrower's obligations to the Bank under this Note and to the extent permitted by law, a contractual possessory security interest in and a contractual right of setoff against, and the Borrower hereby grants the Bank a security interest in, and hereby assigns, conveys, delivers, pledges and transfers to the Bank, all of the Borrower's right, title and interest in and to, all of the Borrower's deposits, moneys, securities and other property now or hereafter in the possession of or on deposit with, or in transit to, the Bank or any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., whether held in a general or special account or deposit, whether held jointly with someone else, or whether held for safekeeping or otherwise, excluding, however, all IRA, Keogh, and trust accounts. Every such security interest and right of setoff may be exercised without demand upon or notice to the Borrower. Every such right of setoff shall be deemed to have been exercised immediately upon the occurrence of an Event of Default hereunder without any action of the Bank, although the Bank may enter such setoff on its books and records at a later time.

12. Indemnity. The Borrower agrees to indemnify each of the Bank, each legal entity, if any, who controls, is controlled by or is under common control with the Bank, and each of their respective directors, officers and employees (the "**Indemnified Parties**"), and to defend and hold each Indemnified Party harmless from and against any and all claims, damages, losses, liabilities and expenses (including all fees and charges of internal or external counsel with whom any Indemnified Party may consult and all expenses of litigation and preparation therefor) which any Indemnified Party may incur or which may be asserted against any Indemnified Party by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Borrower), in connection with or arising out of or relating to the matters referred to in this Note or in the other Loan Documents or the use of any advance hereunder, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Borrower, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority; provided, however, that the foregoing indemnity agreement shall not apply to any claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party's gross negligence or willful misconduct. The indemnity agreement contained in this Section shall survive the termination of this Note, payment of any amounts hereunder and the assignment of any rights hereunder. The Borrower may participate at its expense in the defense of any such action or claim.

14. Miscellaneous. (a) All notices, demands, requests, consents, approvals and other communications required or permitted hereunder ("**Notices**") must be in writing (except as may be agreed otherwise above with respect to borrowing requests) and will be effective upon receipt. Notices may be given in the manner set forth in Section 16.6 of the Loan Agreement at the address of Borrower set forth on the signature page hereto; (b) No delay or omission on the Bank's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Bank's action or inaction impair any such right or power; (c) Bank's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Bank may have under other agreements, at law or in equity; (d) no modification, amendment or waiver of, or consent to any departure by the Borrower from, any provision of this Note will be effective unless made in a writing signed by the Bank, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given; (e) Borrower agrees to pay on demand, to the extent permitted by law, all costs and expenses incurred by the Bank in the enforcement of its rights in this Note and in any security therefor, including without limitation fees and expenses of the Bank's counsel; (f) if any provision of this Note is found to be invalid, illegal or unenforceable in any respect by a court, all the other provisions of this Note will remain in full force and effect; (g) Borrower and all other makers and indorsers of this Note hereby forever waive presentment, protest, notice of dishonor and notice of non-payment; (h) Borrower also waives all defenses based on suretyship or impairment of collateral; and (i) this Note shall bind the Borrower and its heirs, executors, administrators, successors and assigns, and the benefits hereof shall inure to the benefit of the Bank and its successors and assigns; provided, however, that the Borrower may not assign this Note in whole or in part without the Bank's written consent and the Bank at any time may assign this Note in whole or in part.

15. Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of Illinois applied to contracts to be performed wholly within the State of Illinois. Any judicial proceeding brought by or against Borrower with respect to this Note or any related agreement may be brought in any court of competent jurisdiction in the State of Illinois, United States of America, and, by execution and delivery of this Note, Borrower accepts for itself and in connection with its properties, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement. Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to Borrower at its address set forth on the signature page below and service so made shall be deemed completed five (5) days after the same shall have been so deposited in the mails of the United States of America. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of Bank to bring proceedings against Borrower in the courts of any other jurisdiction. Borrower waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. Borrower waives the right to remove any judicial proceeding brought against Borrower in any state court to any federal court. Any judicial proceeding by

Borrower against Bank involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Note or any related agreement, shall be brought only in a federal or state court located in the County of Cook, State of Illinois.

16. WAIVER OF JURY TRIAL. The Borrower irrevocably waives any and all rights the Borrower may have to a trial by jury in any action, proceeding or claim of any nature relating to this Note, any documents executed in connection with this Note or any transaction contemplated in any of such documents. The Borrower acknowledges that the foregoing waiver is knowing and voluntary.

17. Counterparts; Facsimile Signatures. This Note may be executed in any number of and by different parties hereto on separate counterparts, all of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile or electronic transmission shall be deemed to be an original signature hereto.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

WITNESS the due execution hereof as a document under seal, as of the date first written above, with the intent to be legally bound hereby.

ARCA ADVANCED PROCESSING, LLC

By: /s/Edward R. Cameron
Print Name: Edward R. Cameron
Title: CEO

Address:

7400 Excelsior Boulevard
Minneapolis, MN 55426

**AGREED TO AND ACKNOWLEDGED
FOR PURPOSES OF SECTIONS 4, 10 AND 11**

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By: /s/Edward R. Cameron
Name: Edward R. Cameron
Title: President / CEO

APPLIANCE RECYCLING CENTERS OF AMERICA-CALIFORNIA, INC.

By: /s/Edward R. Cameron
Name: Edward R. Cameron
Title: President / CEO

ARCA CANADA INC.

By: /s/Edward R. Cameron
Name: Edward R. Cameron
Title: President / CEO

[SIGNATURE PAGE TO TERM LOAN NOTE]

Subsidiaries of Appliance Recycling Centers of America, Inc.

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

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

All other subsidiaries are 100% owned by the Company.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-33374, 333-126236, 333-163804) and Form S-3 (File No. 333-166604) of Appliance Recycling Centers of America, Inc. of our reports dated March 17, 2011, relating to the consolidated financial statements and financial statement schedule of Appliance Recycling Centers of America, Inc. and Subsidiaries, which appear on pages 36 and 64, respectively, of this annual report on Form 10-K for the year ended January 1, 2011.

/s/ BAKER TILLY VIRCHOW KRAUSE, LLP

Minneapolis, Minnesota
March 17, 2011

CERTIFICATIONS:

I, Edward R. Cameron, certify that:

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

Date: March 17, 2011

/s/Edward R. Cameron

Edward R. Cameron

President and Chief Executive Officer

CERTIFICATIONS:

I, Peter P. Hausback, certify that:

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

Date: March 17, 2011

/s/Peter P. Hausback

Peter P. Hausback

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

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

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), the undersigned Chief Executive Officer of Appliance Recycling Centers of America, Inc. (the "Company") hereby certifies that the Annual Report on Form 10-K of the Company for the year ended January 1, 2011 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 17, 2011

/s/Edward R. Cameron

Edward R. Cameron
President and Chief Executive Officer

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

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

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), the undersigned Chief Financial Officer of Appliance Recycling Centers of America, Inc. (the "Company") hereby certifies that the Annual Report on Form 10-K of the Company for the year ended January 1, 2011 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 17, 2011

/s/Peter P. Hausback

Peter P. Hausback

Executive Vice President and Chief Financial Officer

Principal Financial and Accounting Officer

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