South Bay Recycling, LLC
ANNUAL REPORT

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About South Bay Recycling, LLC

South Bay Recycling, LLC, (SBR) is a joint venture between two of the most experienced operators of mixed waste MRFs, commingled residential recyclables MRFs and Transfer Stations in California; Community Recycling & Resource Recovery, Incorporated (Community Recycling) and Potential Industries, Incorporated (Potential Industries). SBR brings together the strengths of each company; the transfer and C&D processing capability of Community Recycling, and the single stream processing experience of Potential.

Community Recycling is one of a group of California companies owned and managed by Thomas Fry. It has been in business for over 33 years and has provided recycling, composting and energy production service to many communities throughout southern and central California. Community Recycling and Resource Recovery, Inc. presently owns and operates a Mixed Waste Material Recovery Facility (MRF)/Transfer Station/Recycling Complex in the City of Los Angeles and California’s largest Composting Facility in Lamont. Community Recycling’s sister companies also operate Biomass Power Plants in Madera and Dinuba.

Potential Industries was founded in Los Angeles as a privately held corporation in 1975. Potential is a full service diversified recycling company that operates four recycling facilities in the Southern California. Suppliers of recyclable materials include; municipalities, waste disposal companies, certified recycling centers, commercial and industrial accounts, and material recovery facilities. The Company processes over 300,000 tons of recyclable material per year. Potential also has partnerships with a newsprint mill and a tissue mill, both in China.

Community Recycling has evolved over more than three decades from a standard transfer station operation to a fully integrated mixed waste MRF operator, processing C&D and a wide range of organic material to compost. The Company is well positioned to support communities in their drive for zero waste and beyond.

Potential Industries has evolved from a traditional buyback recycling center to embrace residential commingled processing, and then again to secure additional markets through paper mill development. As such, the Company is able to optimize recycling, maximize diversion, and guarantee the strong and steady export markets for recyclable materials.

Both companies have combined proven technology and utilized innovative new technologies to meet the demands and opportunities of today.
Facilities, Equipment and Personnel

FACILITIES

South Bay Recycling, LLC operates a state-of-the-art recycling and transfer station facility under an Operating Agreement with the South Bayside Waste Management Authority (ReThinkWaste.org). The Shoreway Environmental Center is open to the public and provides ability for residents, businesses, contractors, municipalities, and individuals to bring trash and/or recyclable materials for processing and transfer to permitted landfills, end users, and other processing centers for further separation and marketing of materials.

Shoreway Environmental Center Operating Hours

<table>
<thead>
<tr>
<th>Transfer Station Operating Hours</th>
<th>Public Recycling Center Operating Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday through Friday</td>
<td>Monday through Saturday</td>
</tr>
<tr>
<td>6:00AM to 6:00PM</td>
<td>8:30AM to 4:00PM</td>
</tr>
<tr>
<td>Saturday &amp; Sunday</td>
<td>Sunday</td>
</tr>
<tr>
<td>8:00AM to 5:00PM</td>
<td>Closed</td>
</tr>
</tbody>
</table>

The facility is closed to the public on Thanksgiving Day, Christmas Day and New Years’ Day
As customers enter into the facility, they are greeted by Scale House Attendants who identify, measure, record and accept payment for the material entering the Transfer Station. Scale House Attendants are required to inspect all self-haul loads and a minimum four (4) franchise loads entering the facility each day. Loads are inspected to ensure hazardous or any other type of unacceptable material is not received at the facility. These materials include:

- Liquid wastes or sludge
- Car batteries
- Hot ashes
- Sealed containers
- Animal waste
- Dead animals
- Oils and solvents
- Medical waste
- Radioactive or Reactive Materials
- Any type of hazardous waste

No unacceptable or hazardous materials were allowed into the facility in 2012.

All Scale House Attendants have been trained in the proper volumetric measurement of inbound self-haul loads. The SBWMA has established a Yard to Ton ratio of 2.76. SBR documents this self-haul ratio on a monthly basis and conducts spot checks to ensure Scale House Attendants are providing accurate measurements. As diligent as the Scale Attendants are in observing the loads to get an accurate measurement, at times they can miss calculate the volumetric measurement, especially when heavier materials such as sod, dirt, rock, concrete, etc., are hidden at the bottom of a load.

SBR experienced two instances where the ratio exceeded 60% of the standard (March and July). This was likely caused by heavier materials hidden near the bottom of inbound loads to the Transfer Station. SBRs scale software system converts inbound self-haul yards to tons. The conversion for Green and C&D Materials is 723 lbs. per cubic yard, when the average weight of Inert Material (dirt, rock, concrete, etc.) is 2,500 lbs. per cubic yard. As an example, 1 yard of Inert Material is equal to 3.45 yards of Organics or C&D Material.
After the customers leave the Scale House, they are greeted by a Spotter who directs them to the appropriate area to dispose of their materials. Inside the Transfer Station, Sorters who have been trained to identify and recover materials that can be recycled, diverted for beneficial use, or reused, remove these materials from the various waste streams for further processing.

The Transfer Station accepts the following materials:

- Municipal Solid Waste
- Construction & Demolition Debris
- Inert Material
- Dirt
- Concrete/Asphalt
- Yard Debris/Grass
- Wood Waste
- Food Scraps
- Mattresses
- Scrap Metal

Equipment Operators load the materials into trailers, which are transported to the appropriate disposal site or processing Facility.
The Public Recycling Center (PRC) accepts recyclable and/or reusable items from the public. It's also where customers can return California Redemption Value (CRV) containers to receive their deposit value. Materials collected here are baled and sent to various end users who convert the materials into new products, or reuse the items collected.

In April, South Bay Recycling began a buyback program for clean cardboard. Customers who deliver more than 300 lbs. of clean segregated cardboard are paid $90.00 per ton (or $0.045 cents per lb.). Customers who deliver more than 1,000 lbs. of clean segregated cardboard are paid $100.00 per ton (or $0.05 cents per lb.). As a result, South Bay Recycling received an additional 10.26 tons of clean cardboard.

Recyclable materials accepted for drop off are:

- Cardboard
- Mixed Paper
- Glass
- Cans
- Plastic Containers
- Used Motor Oil Filters
- Used Motor Oil
- Used Motor Antifreeze
- Latex Paint
- Electronics
- Fluorescent Lighting Tubes
- Household Batteries
- Sharps
- Cooking Oil
- Clothing
- Mixed Film Plastic
- Clothing

The Public Recycling Center, customers have several options to redeem their CRV containers.

1. Reverse Vending Machines (RVM)
2. Weighing Containers
3. Counting Containers (up to a maximum of 50 containers/customer)

Using the Reverse Vending Machine (RVM) is convenient and easy. Customers simply place their bottles or cans into the machine and when they are finished, they receive a receipt showing the number of containers counted and the cash value.

Customers may choose to have their bottles and cans weigh or counted by an Attendant, and redeem their receipts at the cashier’s office.
SBR continually conducts reviews and assessments of its operation in order to identify opportunities that will increase efficiencies. In 2012, SBR made the following changes to its equipment:

1. Installation of steel walking floors in three (3) trailers dedicated to transporting C&D materials
2. Installation of on-board truck scales on all combination tractor/trailer equipment

The installation of the steel walking floors in the trailers dedicated to transporting C&D material reduced the risk of damaging this equipment during the loading process, subsequently reducing downtime and associated repair and maintenance costs.

The installation of on-board scales has reduced labor and vehicle expense by 1) eliminating the drive time back to the certified scale to check gross vehicle weights and 2) eliminating the time to reenter the Transfer Station tunnel to make load adjustments in order to be in compliance with state maximum weight laws.

SBR designated an area at the southeast corner of the facilities parking area for its truck and trailer repair and maintenance operation, and relinquished the repair shop it was using to RSMC.

SBR purchased two (2) 40 foot containers with roll up doors and stacked the existing two (2) 40 foot containers on top of each to create a temporary structure to perform truck and trailer repair. Each container had temporary electrical and air lines installed and are waiting to have a cover installed in order to protect employees from the weather.
Below is a description of the Equipment Operated and Maintained by South Bay Recycling:

<table>
<thead>
<tr>
<th>Equipment Description</th>
<th>Quantity</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roll-Off Vehicles</td>
<td>1</td>
<td>2010 Xpeditor</td>
</tr>
<tr>
<td>Semi-Tractors</td>
<td>22</td>
<td>2010 Kenworth Tractors</td>
</tr>
<tr>
<td>Trailers</td>
<td>22</td>
<td>10 Tippers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10 Walking Floors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 End Dumps</td>
</tr>
<tr>
<td>Wheel Loaders</td>
<td>6</td>
<td>2 L110 Wheel Loaders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 L60 Wheel Loaders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 L120 Wheel Loader</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 Excavator</td>
</tr>
<tr>
<td>Fork Trucks</td>
<td>3</td>
<td>Linde Electric Fork Trucks</td>
</tr>
<tr>
<td>Pickup Truck</td>
<td>1</td>
<td>Ford F-150</td>
</tr>
<tr>
<td>Man-Lift/Telescope Boom</td>
<td>2</td>
<td>1 Telescoping Boom Lift</td>
</tr>
<tr>
<td>Lift</td>
<td></td>
<td>1 Scissor Lift</td>
</tr>
<tr>
<td>Roll-Off Containers</td>
<td>18</td>
<td>12 50 cubic yard debris boxes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6 20 cubic yard debris boxes</td>
</tr>
<tr>
<td>Computers</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Safe</td>
<td>2</td>
<td>Scale House / Office</td>
</tr>
<tr>
<td>Storage Containers/Bins</td>
<td>50</td>
<td>11 8 cubic yard bins</td>
</tr>
<tr>
<td></td>
<td></td>
<td>18 6 cubic yard bins</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 4 cubic yard bins</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 3 cubic yard bins</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 1.5 cubic yard bins</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 3 cubic yard tilt hoppers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4 6 cubic yard tilt hoppers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4 40’ sea containers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4 universal waste containers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 50 cubic yard enclosed containers</td>
</tr>
<tr>
<td>Platform Scales</td>
<td>2</td>
<td>Main Entrance</td>
</tr>
<tr>
<td>Reverse Vending Machines</td>
<td>2</td>
<td>Public Recycling Center</td>
</tr>
</tbody>
</table>
South Bay Recycling takes great efforts to recruit, hire and train the most qualified candidates to fill key roles within the organization. In February, the position of Site Manager became vacant. The Company began searching for qualified candidates to fill this key role, and after reviewing numerous resumes and conducting several interviews, the position was offered and accepted by Saul San Filippo.

In September, the Company recruited and hired Chad Zupfer as the Materials Recovery Facility (MRF) Interim Supervisor. Gerardo Valles, who had been the Acting Supervisor since November of 2011, trained Mr. Zupfer in the duties and responsibilities of the position, and in December, Mr. Zupfer became the permanent Supervisor.

In November the Transfer Station Supervisor position became vacant. The company started searching for qualified candidates and has reviewed numerous resumes and has conducted several interviews, but has not yet found the right candidate for the position. SBR will continue its efforts to recruit hire and train the most qualified candidate for this key role. In the meantime, the responsibilities of this position have been assumed by the Site Manager and MRF Supervisor, with additional support from our Corporate Maintenance Manager and his staff.

**Vocational Rehabilitation Services (VRS)**

Vocational Rehabilitation Services (VRS) is a public agency whose purpose is to assist people in attaining their maximum potential within a work environment through counseling, work experience, education and vocational testing. The VRS program, a unique public/private partnership, strives to enhance people's self-esteem and dignity.

In 2011, South Bay Recycling, LLC entered into a three year contract with San Mateo County -Vocational Rehabilitation Services (VRS) to provide staffing and program supervisors for sorting operations at the Materials Recovery Facility (MRF). SBR will begin negotiations with San Mateo County in mid-2013 to renew the Operating Agreement.

VRS Clients and Program Supervisors have been trained to identify and remove non-recyclable materials from mix paper, old newspaper, cardboard, plastics, aluminum, and other targeted recyclable materials prior to being baled and shipped to market. SBR has recruited qualified candidates from the VRS program to fill permanent positions with South Bay Recycling as they become available.
Management Team

Dwight Herring
Dwight Herring has been General Manager of South Bay Recycling since November 1, 2011. From February 14, 2011, to that date, Mr. Herring served as Site Manager. Mr. Herring has more than 25 years of experience in the recycling and solid waste industry.

Saul San Filippo
Saul San Filippo has been Site Manager of South Bay Recycling since April 23, 2012. Prior to joining SBR, Mr. San Filippo managed collection and disposal operations for Republic Services of Daly City.

Tonya Gilbert
Tonya Gilbert has been Accounting Supervisor of South Bay Recycling since May 25, 2011. Ms. Gilbert has more than 20 years of experience in bookkeeping and accounting operations.

Chad Zupfer
Chad Zupfer has been Materials Recovery Facility Supervisor of South Bay Recycling since September 12, 2012. Prior to joining SBR, Mr. Zupfer supervised material processing operations for Rock Tenn (formerly SMURFIT) in San Jose, California.

Transfer Station Operations

<table>
<thead>
<tr>
<th>Position</th>
<th>Contractually Required</th>
<th>Active Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scale Attendant</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Equipment Operator</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Spotter/Utility</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Sorter</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>21</td>
</tr>
</tbody>
</table>

Materials Recovery Facility Operations

<table>
<thead>
<tr>
<th>Position</th>
<th>Contractually Required</th>
<th>Active Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment Operator</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Spotter/Utility</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Mechanic</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>PM Technician</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>PRC Attendant</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>15</td>
</tr>
</tbody>
</table>

Transportation Operations

<table>
<thead>
<tr>
<th>Position</th>
<th>Contractually Required</th>
<th>Active Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semi Driver</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Truck Mechanic</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>21.6</td>
<td>22</td>
</tr>
</tbody>
</table>
Roles and Responsibilities

Semi-Driver
Semi-Driver operate a combination tractor/trailer or other vehicles as required to transport materials from the transfer station to the disposal or processing site as directed.

Truck Mechanic
Truck Mechanics perform repairs and maintenance on trucks, trailers and other equipment to maximize safe and productive operations.

Equipment Mechanic
Equipment or MRF Mechanics perform repairs and maintenance on processing equipment, balers, man lifts, forklifts, loaders, and other facility equipment to maximum safe and productive operations. They also perform special projects throughout the facility as required.

Equipment Operator
Equipment Operators are responsible for loading trailers with the materials received in both the commercial and self-haul areas. Operators load materials into transfer trailers throughout the day for outbound shipments. Operators support the Sorters and Spotters in removing materials identified for diversion.

Scale House Attendant
Scale House Attendants are responsible for estimating volumes and per unit items in the self-haul vehicles. All materials are entered into PC Scale by material type. Appropriate fees are collected by the Scale Attendant.

Public Recycling Attendant
PRC Attendants weigh and/or count used beverage containers brought into the Public Recycling Center and disburses the correct CRV refunds due to customers. They also assist customers with any recyclable materials and reusable items that they are dropping off.

Spotter/Utility
Spotters are responsible for assisting loaders when loading transfer trailers in the tunnel. Spotters also support Sorters when materials are not being loaded.

Sorter
Sorters are responsible for checking tickets, managing traffic flow, and sorting materials for diversion. Sorters also support with general maintenance throughout the facility and assist with loading diverted items into appropriate bins and storage areas.

VRS Clients
VRS Clients are responsible for identifying and recovering non-targeted recyclable materials from the pre-sort line of the MRF, and for identifying and recovering non-recyclable materials from fiber, plastics, aluminum and other targeted recyclable materials.
SBRs company tagline is “Improving Your Environment Every Day”. That is not just a catchy phrase, but a reality. SBR trucks and trailers were custom designed, engineered, manufactured, and built in order to minimize the tare weight and maximize payloads. Hauling increased payloads results in putting fewer trucks on the road, reducing traffic congestion, resource consumption and CO² emissions. These results are detailed in Table 1.

The average payloads for 2012 exceeded the aggressive targets that SBR identified in their bid documents, which many thought were unobtainable. These results are detailed in Table 2.

Table 1

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trips Saved</td>
<td>651.11</td>
<td>683.79</td>
<td>718.05</td>
<td>662.76</td>
<td>2,715.72</td>
</tr>
<tr>
<td>Miles Saved</td>
<td>12,393.15</td>
<td>14,580.50</td>
<td>14,645.19</td>
<td>10,920.37</td>
<td>52,108.34</td>
</tr>
<tr>
<td>Fuel Saved (Gal.)</td>
<td>3,098.29</td>
<td>3,645.12</td>
<td>3,661.30</td>
<td>2,730.09</td>
<td>13,027.09</td>
</tr>
<tr>
<td>Lbs. of CO²</td>
<td>68,781.98</td>
<td>80,921.77</td>
<td>81,280.78</td>
<td>60,608.07</td>
<td>289,201.31</td>
</tr>
<tr>
<td>Lbs. of Carbon Saved</td>
<td>18,961.52</td>
<td>22,308.16</td>
<td>22,407.13</td>
<td>16,708.17</td>
<td>79,725.77</td>
</tr>
</tbody>
</table>

Table 2

<table>
<thead>
<tr>
<th>Solid Waste</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tons</td>
<td>48,071.08</td>
<td>50,958.20</td>
<td>48,725.18</td>
<td>49,843.33</td>
<td>197,597.79</td>
</tr>
<tr>
<td>Loads</td>
<td>1,847</td>
<td>1,958</td>
<td>1,870</td>
<td>1,917</td>
<td>7,592</td>
</tr>
<tr>
<td>Avg. Tons/Load</td>
<td>26.02</td>
<td>26.02</td>
<td>26.05</td>
<td>26.00</td>
<td>26.02</td>
</tr>
<tr>
<td>Organics</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tons</td>
<td>23,030.79</td>
<td>28,156.31</td>
<td>25,663.51</td>
<td>32,197.28</td>
<td>109,047.89</td>
</tr>
<tr>
<td>Loads</td>
<td>929</td>
<td>1,128</td>
<td>1,030</td>
<td>1,295</td>
<td>4,382</td>
</tr>
<tr>
<td>Avg. Tons/Load</td>
<td>24.79</td>
<td>24.96</td>
<td>24.92</td>
<td>24.86</td>
<td>24.89</td>
</tr>
<tr>
<td>Inert/C&amp;D</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tons</td>
<td>8,124.39</td>
<td>11,718.76</td>
<td>12,630.14</td>
<td>11,197.32</td>
<td>43,670.61</td>
</tr>
<tr>
<td>Loads</td>
<td>335</td>
<td>481</td>
<td>525</td>
<td>535</td>
<td>1,876</td>
</tr>
<tr>
<td>Avg. Tons/Load</td>
<td>24.25</td>
<td>24.36</td>
<td>24.06</td>
<td>20.93</td>
<td>23.28</td>
</tr>
</tbody>
</table>
Material Marketing Summary

Material Marketing Report

SBR is operating the MRF equipment and processing normal grades of recyclable materials as follows:

- Old News Paper (ONP)
- Mixed Paper (MP)
- Old Corrugated Containers (OCC)
- HDPE color plastic (HDPEc)
- HDPE natural plastic (HDPEn)
- Plastic #3-#7
- Mixed Film Plastic (MFP)
- Mixed Rigid Plastic (MRP)
- Tin cans
- Aluminum cans
- 3 mix glass
- Scrap metal

SBR transports mixed and clean glass to destinations in San Leandro, California. All other materials are sold FOB San Carlos with the buyer making arrangements and paying for transportation.

As required under the terms of the Facility Operating Agreement, SBR compiles data for monitoring the prices that OCC, Mix, and ONP is sold for and compares them to the Fiber Commodity Price Assurance Average Index Value. The chart below provides a calculation showing the Quarterly Index value compared to the average sale price for each grade of fiber from the MRF, the Price Assurance Index, and the Premium per ton for each grade. SBR’s expertise in material marketing has provided the SBWMA with a premium value for the recovered fiber of $158,139.77 for 2012 (see chart below).

<table>
<thead>
<tr>
<th></th>
<th>OCC</th>
<th>Mix</th>
<th>ONP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>Average Index Value</td>
<td>$150.26</td>
<td>$109.04</td>
<td>$118.90</td>
</tr>
<tr>
<td></td>
<td>Average Price Sold</td>
<td>$154.35</td>
<td>$112.05</td>
<td>$122.59</td>
</tr>
<tr>
<td></td>
<td>Difference (+/-)</td>
<td>$4.09</td>
<td>$3.02</td>
<td>$3.70</td>
</tr>
<tr>
<td></td>
<td>Tons</td>
<td>13,639.04</td>
<td>13,197.94</td>
<td>16,891.44</td>
</tr>
<tr>
<td></td>
<td>Total Premium Value</td>
<td>$55,783.67</td>
<td>$39,857.78</td>
<td>$62,498.33</td>
</tr>
</tbody>
</table>

Selecting Buyers

SBR sends out a bid cover sheet to all buyers outlining the procedures and processes of handling recyclable outbound commodities (each bidder is provided a Commodity Bid Sheet for providing the pricing each month). SBR also prepared a MRF Commodity Sales / Shipping Procedure Overview outlining the internal procedures for handling the recyclable commodities. SBR ensures that recovered materials are handled in an environmentally sound manner, and only does business with established companies that have a good reputation in the industry.
Material Bidding and Monthly Revenue
SBR continues to work with its established buyers of recyclable material and expand opportunities with new buyers that are interested in purchasing material. All buyers are required to inspect all materials and assess quality. SBR has requested existing buyers to come reevaluate the materials as improvements in quality have been made by adjusting the processing equipment.

Fiber
SBR places special emphasis on marketing baled fiber (ONP, OCC, and Mix Paper). This material comprises over 60% of inbound MRF volumes. Since storage space for baled material is limited, it is very important that the shipments are not interrupted. The SBR operated MRF continues to produce baled Fiber quality that has not resulted in downgrades or deductions due to quality. During 2012 there were two periods when market pricing dropped rapidly: in July/August pricing dropped approximately 40% and in December pricing dropped approximately 15%. In both cases there were brief instances when the Index Value was temporarily slightly above the Market Price. This was due to the Index Value measuring the price during the first few days of the month while the Market Price measures the average price for the month.

Glass
SBR selected Strategic Materials as its end user for both mixed and color segregated glass. In 2012, eCullet began operations in the Bay area, and SBR is now sending a portion of their glass to each company. SBR produces approximately 60 tons of good quality 3mix Glass each day, and as such it is important to market the material to a buyer who can provide the best pricing while ensuring ongoing product movement. SBR will continue to sell material to the company that provides the best overall value and net revenue. In addition, it is important that the glass purchaser be familiar with CRV (California Refund Value) regulations so that the proper amount of CRV money is recovered from Cal Recycle, including the rebate for the Quality Glass Incentive Payment (QIP).

Containers
On a monthly basis, and in some case twice per month, container materials are bid out to qualified buyers. Such materials include aluminum, PET, HDPE-Natural, HDPE-Color, 3-7 Mixed Plastics, Mixed Rigid Plastics, tin cans, and mixed film plastic. SBR communicates with all vendors by providing feedback to provide insight on their monthly bidding.

CRV Revenue
SBR is certified by Cal Recycle as a Recycling Center (RC), Processor (PR), and drop-off Collection Program (CP). SBR utilizes Cal Recycles’ DORIIS system to submit remittance for CRV payments made to customers in accordance with State regulations and passes these payments on to the SBWMA after they are received.

Prior to commencing MRF operations SBR filed for and obtained Cal Recycle authorizations for Alternative Allocation Methodology for glass cleaning and allocating CRV payments to multiple programs. SBR has worked with the SBWMA, RSMC, and Titus to ensure that Individual Commingled Rates (ICR) for Member Agencies remain in place for 2012 and continue in 2013.

SBR contacted Cal Recycle to determine the status of the Curbside Supplemental Payments (CSP). Annual appropriations of $15 million dollars have been established for FY10/11 and FY 11/12, and their payment is subject to legislative action and availability of funds. There are no applications or invoices that need to be submitted in order to get the CSP money, which are normally made in December following the Calendar Year (CY) in which the containers were collected. CSP payments for CY 2011 were scheduled to be made by CalRecycle through RSMC to Member Agencies. CRV Curbside Supplemental Payments for CY2011, the first year SBR began operating the MRF, will be applied toward SBRs revenue guarantee according to the timing of when the payment is received.
SBR contacted Cal Recycle to determine the status of the Quality Incentive Payments (QIP) for MRF glass. Currently the State has $10 million dollars available per year, which is divided into two reporting periods: January – June and July – December. The beneficiating processor fills out a DOR56 form then after the invoice is processed and approved the payment is typically made within 3-6 months. Cal Recycle plans to continue this payment level in 2013, subject to legislative action and availability of funds. Payments for CY2012 will be paid to SBWMA and applied toward SBRs revenue guarantee according to the timing of when the payment is received.

**Fiber Commodity Moisture Monitoring**

The moisture testing protocol and test results were submitted to and approved by the Authority in 2011. If excess moisture is present then SBR will compile the required information and make a recommendation to the SBWMA so they can make an investigation to arrive at a determination based on the following information:

- Daily rainfall records in the local area
- Moisture measured in inbound loose material
- Average bale weights for OCC, ONP, Mix Paper
- Moisture measured in sorted/processed materials

In the last few days of November 2012, San Mateo County experienced a heavy rain event. As a result of this event, on Friday, November 30, 2012, SBR identified eighteen (18) loads for a total of 135 tons of commercial and residential recyclable materials that could not be processed due to its excessive moisture content.

A representative of RSMC was dispatched to the MRF to review the loads and it was mutually agreed between both parties that these loads could not be processed due the excessive moisture. This material was transported to the Transfer Station for disposal.

In December there was significant rainfall that resulted in fiber having excess moisture. SBR brought this to the attention of SBWMA and a determination was made to not deduct for excess moisture but rather to wait deal with the issue if the end user files a moisture claim. SBR is working with SBWMA to formalize the procedures for dealing with wet fiber in a manner consistent with contractual requirements.
April 2013 marks the two year anniversary of operating the MRF. SBR is working with equipment suppliers to ensure that all warranty items are in compliance. SBR is also working with SBWMA to finalize some modifications and enhancements to the MRF equipment. SBR will continue to work closely and collaboratively with SBWMA and RSMC to pursue third party MRF tons in 2013.

In February, SBR completed the installation of the residue conveyor system from the Materials Recovery Facility to the Transfer Station. The installation of this equipment allowed for an efficient transfer of residual materials between the MRF and the Transfer Station, and reduced year over year transportation expenses by $55,680 to the SBWMA. This also improved the MRF tipping floor space for large volume OCC (cardboard) buyback and commercial suppliers.

The Material Recovery Facility equipment is performing in a manner consistent with design parameters, and as a result, is achieving production and quality levels that meet or exceed goals. Due to the operations ability to function at acceptable levels, SBR began sourcing single stream, and source separated recyclable materials from third party haulers. In January 2012, SBR contracted with Republic Services to receive single stream recyclable materials from their Half Moon Bay and Daly City operations, while their MRF was under construction at Newby Island. SBR received a total of 7,743 tons of single stream recyclable materials from Republic Services in 2012. Beginning in October SBR began to receive single stream recyclable materials from Recology of the Pacific. They have delivered a total of 1,374 tons and SBR will continue to receive this material into 2013.

SBR has successfully applied its expertise in maximizing recovery and minimizing residue. By judiciously using equipment and labor SBR was able to achieve an overall 2012 recovery rate of 92.8% (7.2% of inbound materials left the facility as residue). This recovery rate is among the best in the industry. SBR is working with RSMC and the SBWMA to further improve the recovery rate by reducing the contamination level of inbound commercial and residential commingled recyclable materials.
There are two components to the value of recyclable commodities; scrap value and CRV value. The scrap value indicates the dollar amount that end users or intermediate processors are willing to pay for a specific commodity. The CRV value indicates the dollar amount that Cal Recycle establishes for beverage containers that are included in the CRV program.

The overall scrap value outlook for 2013 is stable. Recyclable materials are commodities, and as such they are subject to local, regional, and international forces of supply and demand.

Over 60% of the recyclable materials recovered in the MRF are fiber: Cardboard (OCC), Old Newspaper (ONP), and Mixed Paper. Demand for OCC and Mixed Paper is solid and is expected to be flat in 2013. Demand for Old Newspaper is stable, but it may decline slightly as newsprint consumption continues to fall.

The scrap values for other recyclable commodities are expected to fluctuate in ranges consistent with the past year. SBR finds no reason to think that 2013 levels will be different than the recent past.

CRV values are subject to funding received by CalRecycle, budgetary actions at the State level, changes to refund & processing payments, and regulatory changes which are sometimes driven by special interest groups. A full review of CRV changes for 2013 is beyond the scope of this report. However, based on the changes in CRV Processing Payments and Individual Commingled rates it is likely that the net overall CRV value for 2013 will be about the same as 2012. On a positive note CalRecycle resumed Processing Payments for PET in 2013.
Creating a Culture of Safety

A safety culture exists within an organization when each individual employee, regardless of their position, assumes an active role in error prevention and that role is supported by the organization.

At SBR, we recognize that an ideal safety culture is the ‘engine’ that drives the system towards the goal of sustaining the maximum resistance towards its operational hazards. This goal is achieved irrespective of the organization’s leader or current commercial concerns. What drives our safety program is a constant level of respect for anything that may bypass organizational safety systems. In other words, we are constantly looking for what can go wrong. It is very dangerous to think that an organization is safe because no information is saying otherwise. The culture we are creating requires safety management to be aware of the numerous factors that have an impact on the safety systems (i.e. human, technical, organizational, and environmental).

SBRs safety culture is reflected and promoted by the following four factors:

1. Senior management commitment to safety
2. Shared care and concern for hazards and a solicitude for their impacts on people
3. Realistic and flexible norms and rules about hazards
4. Continual reflection upon practice through monitoring

Preventative Measures

SBR makes every effort to ensure it is in full compliance of the General Operating Standards and Services required under the Operating Agreement. SBRs approach is preventative versus reactive. To this regard, management works collaboratively with its employees, the SBWMA and other regulatory agencies to develop and implement preventative measures that will reduce the risk of injury to our employees and the public we serve.

SBR and the SBWMA identified the need to install an additional fire suppression system inside each of the fiber storage bunkers located in the Materials Recovery Facility (MRF). This equipment is essential, and will prevent excessive damage should a fire occur in this area.

To ensure the operation is in compliance with Cal-OSHA standards, SBR contacted Cal-OSHA’s Consulting Division and requested a post-operating review of the operation and its safe workplace practices program. In March, a representative of Cal-OSHA conducted a comprehensive inspection of the MRF and Transfer Station operations, and reviewed its safety programs, policies, procedures, and training regimen. As a result, Cal-OSHA identified areas of concern and made recommendations to its established programs. SBR has since corrected all areas of concern and have updated its safety program to include the recommended changes and trained staff and employees on the updated procedures.
Other General Operating Standards and Service in place include, but are not limited to:

**Litter Control**  
SBR has a dedicated employee who is assigned to patrol, collect and properly dispose of any litter or debris that may be on or adjacent to Shoreway Road between Ralston and Holly. This employee is also responsible for collecting and removing any debris found throughout the property at the Shoreway Environmental Center. The company has also contracted with a commercial sweeping company who is required to sweep each day, all areas within the Shoreway Environmental Center and on Shoreway Road between Ralston and Holly, collecting all debris in these areas and disposing of them at the Shoreway Environmental Center.

**Vector Control**  
SBR conducts its operations in such a manner as to ensure that conditions are unfavorable for production of rodents, insects and seagulls. To this regard, SBR ensures that all solid waste, organics and construction and demolition debris that enters the Transfer Station is loaded and transported to the disposal site or processing facilities within 24 hours of receipt. In addition, SBR has contracted with a vendor to provide pest control services at the facility.

SBR has also installed effective bird control measures which have significantly reduced the number of seagulls and crows present at the facility.

**Odor, Dust and Noise Control**  
Odor, noise and dust are always a concern when operating a Transfer Station, Materials Recovery Facility and Transportation operation. Dust and odor control systems have been installed and are in operation at the Transfer Station and Materials Recovery Facility.

**LEA inspections**  
In May, SBR received the following Notices of Violation (NOV) from the Local Enforcement Agency (LEA):

1. **Litter Control:** A large piece of film plastic was observed hanging off the end of a trailer while it was enroute to a disposal site.
2. **Maintenance Program:** Two (2) roll up doors in the Transfer Station were inoperable, and a section of the Transfer Station floor had exposed rebar.

SBR took immediate action by placing the trailer out of service while it repaired the tarp on the trailer. The driver was retrained in how to perform an inspection of the combination tractor/trailer prior to leaving the facility to ensure the equipment is safe to operate. Repairs to the roll up doors and Transfer Station floor had already been scheduled for repair prior to the LEAs inspection, and were completed in June.

**Facility Inspections**  
SBRs management team conducts monthly facility inspections to ensure all equipment is in good working condition and operating properly, the facility is clean and organized and that all materials are properly stored in accordance with its policies and procedures, and that its personnel are wearing the appropriate Personal Protective Equipment (PPE). Any deficiencies or areas of concern are documented and corrected prior to the next inspection.

SBR utilizes EEAP (Safety Consultant) to conduct quarterly, comprehensive facility inspections. EEAP reviews their findings with the General Manager and submits their report to the Company’s Corporate Safety Manager.
Hazardous Spills and Removals
There were no hazardous spills or removals required

Training
SBRs management team conducts safety meetings each month with its employees. The training topics are listed below. In 2012, SBR contracted the services of Safety Research Consultants, Inc., to assist us with updating our Safety Program to meet Cal-OSHA requirements and to train SBR staff and employees in Emergency Response procedures.

- Bloodborne Pathogens
- Confined Space
- Driver Qualification and Inspection
- Emergency Response
- Employee Observation
- Ergonomics
- Fall Protection
- Fire Prevention
- Hazard Communication
- Hearing Conservation
- Lock Out/Tag Out
- Personal Protective Equipment
- Seat Belt Use

Accidents & Injuries

<table>
<thead>
<tr>
<th>Date</th>
<th>Employee/Customer</th>
<th>Incident</th>
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<tbody>
<tr>
<td>2/2012</td>
<td>SBR Employee</td>
<td>SBRs End Dump Trailer overturned while dumping inert material at OX Mountain Landfill.</td>
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<tr>
<td>3/2012</td>
<td>SBR Employee</td>
<td>SBR combination tractor/trailer struck a RSMC front load vehicle while backing in the SBR Facility.</td>
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<tr>
<td>6/2012</td>
<td>Customer</td>
<td>Self-Haul customer failed to lower the dump body of his vehicle before exiting the Transfer Station and struck the roll up door.</td>
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<tr>
<td>7/2012</td>
<td>SBR Employee</td>
<td>Employee was struck in the right arm by a bucket loader operating inside the Materials Recovery Facility (MRF).</td>
</tr>
<tr>
<td>9/2012</td>
<td>SBR Employee</td>
<td>SBR employee injured his right hand when cleaning debris from a bucket loader while conducting a post-trip inspection of the equipment.</td>
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<tr>
<td>10/2012</td>
<td>SBR Employee</td>
<td>A SBR combination tractor/trailer was struck by another vehicle while attempting to merge onto Highway 92.</td>
</tr>
<tr>
<td>11/2012</td>
<td>Vendor</td>
<td>Vendor failed to lower the tarp arm of his vehicle and struck the signage at the scale entrance of the facility.</td>
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</table>
Overview
South Bay Recycling, LLC is required to divert a minimum of 30,000 tons per year from the total tons received in the Self-Haul side of the Transfer Station. In 2012, SBR diverted 47,561 tons of the 56,344 tons received. SBR will continue to collaborate with the SBWMA to improve diversion, including from the inbound franchise tons.

Sorting Operations
As self-haul customers enter the transfer station, they are directed by the Spotter to the appropriate tipping area based on the material type they are bringing in. Once the customer has completed unloading their material, Sorters identify recyclable and/or reusable materials and recover these items and place them in designated areas for further processing or collection by the end user. Sorters also remove contaminants from the organics such as plastic bags, flower pots, and other unacceptable materials. Equipment Operators support the sorting staff by separating loads and removing heavy items for diversion.

Self-Haul Customer Incentives
SBR collaborated with the SBWMA to establish an incentive fee structure for clean inert and wood materials. Customers receive a reduced rate of 20-25% to encourage additional volumes of these types of materials. In addition, Scale Operators make customers aware of the savings when they have split loads of clean materials, allowing them to tip in multiple areas. The designated material types are printed on the weight tickets so contractors can report diversion credits to the municipalities that maintain C&D Ordinances.

Recovered Materials
SBR Sorters are trained to identify and recover recyclable materials from the various waste streams. SBR has designated areas where recovered recyclable materials are stored until they can be processed or sold. In some cases the material is set aside as a specific grade, and in other cases materials are culled or pulled from mixed materials. These materials include:

- Appliances
- Refrigerators
- Tires
- Electronics
- OCC
- Mixed Plastics
- Scrap Metal
- Clean Wood
- C&D Material
- Mixed Rigid Plastic
- Mattresses
- Sofas
- Garage doors
- Carpet
- Reuse Items
SBR Sorters have been trained by St. Vincent de Paul to identify, recover and store targeted items that can be reused. These materials include:

- Used Clothing
- Used Books and Magazines
- Used Household Goods
- Furniture

**FUTURE OPTIONS UNDER CONSIDERATION**

SBR makes every effort to seek out and evaluate opportunities to recover other materials. Options under consideration are as follows:

**MRF**
Remove materials that can either be marketed as traditional recyclables or culled from the residue and used in some type of beneficial use.

**Self-Haul**
Segregate other clean inert materials (i.e., asphalt, rock, ceramics, etc.)

**Franchise Loads**
Identify and recover materials that can either be segregated by material type and stored in the Transfer Station or combined with other dry recyclables and sent to the MRF for processing.

SBR is intent on identifying opportunities to expand the diversion efforts at the SEC. Our plan is to work directly with the SBWMA staff on the use of mechanical technologies and appropriate staffing levels to expand recycling efforts. Throughout 2013 SBR will work cooperatively with SBWMA and Recology to identify materials in the Transfer Station that can be recycled or diverted for beneficial use. Space constraints are the biggest obstacle, both in the Transfer Station and the MRF. SBR continues to evaluate markets and will bring new opportunities to the SBWMA.

**Commercial Load Evaluation and Sorting**
Evaluation of commercial loads will be conducted as part of the review to determine which type of materials should be identified as part of diversion from a sorting operation. SBR will work with SBWMA and/or their consultants to identify materials from certain collection routes that could be sorted in the Transfer Station. Sampling and testing will take place, and based on the results, SBR will work directly with the SBWMA to evaluate mechanical sorting/screening opportunities in the Transfer Station.
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<tr>
<th>Attachments</th>
<th>Description</th>
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<tr>
<td>Attachment A</td>
<td>Total materials entering the SEC hauler type</td>
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<td>Attachment B</td>
<td>SEC outbound tons</td>
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<tr>
<td>Attachment C</td>
<td>Mass balance accounting of all materials that enter and leave the SEC</td>
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<tr>
<td>Attachment D</td>
<td>Total materials moving between the buildings at the SEC</td>
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<tr>
<td>Attachment E</td>
<td>Percentage of materials diverted by material type and operation</td>
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