



Great EXPECTATIONS

by Bobby Elliott and Dan Leif

Three-year-old E-Waste Systems, Inc. claims it's set to become an industry leader. But do its globetrotting partnerships and multimillion dollar revenue projections add up?

What is this company exactly? That's the question many e-scrap industry members have likely asked themselves after coming across E-Waste Systems, Inc.

The firm, which was launched in 2011 and is publicly traded through the over-the-counter stock system, certainly has no problem expressing itself, issuing nearly 80 press releases between January 2012 and May 2014.

In that time, E-Waste Systems, which uses the ticker symbol EWSI, has listed offices in California, Cincinnati, London and Shanghai. It's announced dozens of acquisitions and business partnerships, some with known industry members such as 2trg and smaller players like Surf Investments, but others with nebulous foreign entities that might not have any relationship to the e-scrap industry at all.

EWSI has also made eye-popping revenue claims – boasts of \$12 million expected last year and \$50 million in 2014 – only to follow them up with quarterly and annual financial reports that indicate what seem to be spectacular shortcomings. Its most recent annual report filed through federal regulators, which came in April, showed 2013 revenues of \$862,258, not \$12 million, and operating expenses of almost \$7 million.

So it's understandable why industry insiders are left with plenty to ponder. Is EWSI just talking a big game to pull investors to its stock? Could it actually be bringing a bold, global approach to electronics recycling? Or is the firm something else altogether?

To try to unravel the mystery, *E-Scrap News* talked to a long list of industry sources, including key EWSI leaders, and analyzed the firm's trail of press releases and U.S. Securities and Exchange Commission filings. What follows is a chronicle of the company's moves

to date and the increasingly wide divide between the expectations EWSI proclaims and the results it posts.

Hungry for partners

E-Waste Systems, Inc. came into being in May 2011 when its founder and chairman, Martin Nielson, took control of a publicly traded energy drink brand called Dragon Beverage, Inc. Nielson says he leveraged that “public vehicle” to launch an e-scrap operation. The energy drink concept was left behind, but the newly formed EWSI had plenty of pep in its step as it jumped into the end-of-life electronics space.

The company's first splash was the September 2011 acquisition of Columbus, Ohio-based Tech Disposal, Inc., a firm run by a wrestling-coach-turned-scrapper named George Pardos. The partnership has since dissolved, according to both Pardos and EWSI SEC filings, but at the time EWSI referred to the deal as emblematic of things to come: “This acquisition ... will be a component of EWSI's plans to acquire what it believes are a select number of quality companies led by capable management teams,” a press release from September 2011 read.

It also stated Tech Disposal would generate roughly \$700,000 in revenues for the company over the course of a year.

Another processor in the region, however, told *E-Scrap News* Tech Disposal was a “non-player” in Ohio. “EWSI puts out a press release that they've acquired the top, internationally known company,” the area processor continued. “The people who knew [Tech Disposal] just laughed.”

EWSI's activity picked up in 2012. After two three-year “teaming agreements” were signaled in February 2012, EWSI signed non-



E-Waste Systems' 44,000-square-foot processing facility in Ohio (left) is located in a quiet office park. At the former site of 2trg in Cincinnati (right), a discarded TV near the loading docks symbolizes that firm's struggles.

binding letters of intent to acquire a number of U.S. companies during the year. The announcements trumpeting these moves were vague about the identity of the targets – a Southwest “multi-vendor reverse logistics solution company,” for instance – but the company predicted big business leaps. “The growth opportunities in the e-waste industry continue to validate our business model and we are keenly focused on the fact that the market is fertile for an industry leader,” Nielson said in the last of 16 press releases from the year.

In January of 2013, EWSI announced those letters of intent had fallen through after the “unexpected erosion of our share price,” which had fallen from 3 cents to 0.6 cents during the second half of 2012. What’s more, the company’s report on 2012 financials, issued in April of 2013, showed no revenue was generated while operating expenses neared \$1.3 million.

Encountering glass

Averaging almost a press release per week, EWSI significantly raised its merger and acquisition decibel in 2013 (see sidebar on page 14). In the U.S., the company lined up locations on both coasts, and during the year the company also indicated it crafted partnerships in Europe, Asia and Australia.

Two moves, however, significantly shaped how EWSI would present itself and its revenue potential in the months to come.

On July 9, 2013, EWSI announced it had entered into “a letter of intent to acquire 2trg,” a firm with two processing facilities, in New York and Ohio, that had been operating for several years. Both locations carried e-Stewards and R2 environmental certifications.

“We did enough diligence to be confi-

dent that those assets could generate for us the right kind of building blocks,” Nielson said in a recent interview with *E-Scrap News*.

But those building blocks started to look more like stumbling blocks by late 2013. And few e-scrap professionals will be surprised by the source of the trouble – CRT glass.

Though 2trg had once been lauded in publications such as *The Cincinnati Business Courier* and *Inc.* magazine, the company had been significantly struggling when EWSI emerged as a buyer. According to 2trg’s former director of business development, Jerry Townsend, the company lost a sizeable contract to process Dell’s end-of-life electronics at the end of 2010 and was never able to fully recover. “Immediately the trucks stopped coming,” Townsend recalled, “but they had this humungous backlog of monitors and the like.”

Townsend, who now works at the e-scrap processing firm Global Environmental Services, said 2trg’s CFO, Carol Weinstein, turned to other industry members to help right the ship, but few viable partners came forward and the leaded glass continued to pile up. Weinstein and another 2trg principal, Leslie Loring, did not respond to numerous requests for comment.

Still, EWSI, intent perhaps on making a bigger splash than Tech Disposal delivered, was willing to enter the picture by buying the company’s assets. Despite 2trg’s known struggles and the 1,500 tons of CRT glass sitting at the 2trg site (which EWSI would not occupy, choosing another facility in nearby Springdale, Ohio), EWSI described the deal as a financial coup. “The new business is expected to add as much as \$5 million in first year annualized revenues and the processing of over 12 million pounds of e-waste,” the company said in a press release, adding that

annual capacity from the deal would have the potential to hit 75 million pounds.

According to a contract supplied to *E-Scrap News*, EWSI’s asset acquisition stipulated 2trg was responsible for moving the glass downstream. But with 2trg out of business, the glass stayed right where it was.

Julie Peterson, EWSI’s e-waste division president, said in an interview that EWSI, “along with a consortium of other people,” managed to get the glass moved downstream this spring. Ohio EPA confirmed the stockpile was shipped to Closed Loop Refining and Recovery (CLRR), an emerging CRT processor that is in the midst of building glass smelting technology in Ohio and Arizona.

The struggles associated with 2trg weren’t over, though. In January of this year, Weinstein and Loring filed suit against EWSI. In the document, a copy of which was obtained by *E-Scrap News*, the plaintiffs demand just over \$800,000 in damages, alleging EWSI failed to satisfy a number of contractual obligations.

In the annual report filed with the SEC in April, EWSI states, “Our counsel has advised us that any pending legal actions should be able to be resolved without significant impact on the Company.”

Peterson said EWSI would continue to make the best of its first foray into processing. “We would of course like to acquire firms that are stable, steady and everything,” she said in May. “But who gives those away?”

The 2trg asset deal has resulted in two processing operations for EWSI. The company currently operates a 12,000-square-foot space in Geneva, New York that was formerly run by 2trg. EWSI’s site in Springdale is 44,000 square feet.

At both facilities, EWSI has been processing material since March, but the opera-

tions have not led to the revenues expected of the deal. Peterson told *E-Scrap News* neither is yet profitable, though the facilities took in a combined 600,000 pounds of material in April, the first full month of EWSI operations. She said the combined goal is 2 million pounds a month. She gave no indication how the facilities could ever reach the point of processing 75 million pounds per year.

A great wall

As EWSI worked to finalize the 2trg asset deal and open U.S. operations, it also began articulating a strategy centered on an e-scrap market nearly half a world away.

Of all the deals and expectations noted in press releases and communications geared toward shareholders, the company attributed special importance to a budding partnership with a publicly traded enterprise called Tanke, Inc. “To enter into China,” Nielson told *E-Scrap News*, “we needed a well connected and experienced partner who shares our passion for doing things right, and now we have that.”

EWSI has publicly stated that its work with Tanke will lead to \$30 million of the \$50 million in revenues the company says it will generate in 2014. The whereabouts and identity of the partner, however, remain unclear (see sidebar on page 16 for more details).

Nielson told *E-Scrap News* the value in the Tanke partnership will come primarily through connections. He said Tanke gives EWSI “access” to 65 of the 91 government-certified e-scrap processing facilities in China and has led to one confirmed partnership with equipment maker Loyalty.

Nielson repeatedly declined, however, to explain the specifics of Tanke’s business in the U.S. and overseas, including whether the company is involved in the e-scrap industry in China at all. “I’ll refer you to Tanke in that regard,” Nielson said. “They are a very well connected group of people. ... We’ve used those connections to very good effect.”

EWSI, Nielson confirmed, has no e-scrap processing facilities of its own in China, but instead works with “processing partners” he would not name.

EWSI provided an email address for Tanke’s CEO, Carrie Zhang, but multiple emails sent to that address bounced back, as did emails to Tanke’s investor relations address. Emails to Tanke’s general email address and to Arthur King, a second Tanke contact provided by EWSI, were not returned at press time. Calls to a phone number associated with the company were



Martin Nielson, center-right, participates in a ceremony to usher in EWSI’s Springdale, Ohio facility. Springdale Mayor Doyle H. Webster helps Nielson do the honors.

also not returned.

David Cauchi, the CEO of CLRR and a longtime waste and recycling industry member who has done business in China since 1996, told *E-Scrap News* he doesn’t believe Tanke is an active part of the Chinese e-scrap scene. “They have no facilities – they have nothing,” Cauchi said. “I don’t think there’s anything in this Tanke deal.”

To his point, EWSI’s former accounting firm, MaloneBailey, resigned from the post in March of 2014, due to concerns that “certain lease agreements entered into by the company [EWSI] with several Chinese companies in 2013 appeared to lack substance,” an EWSI SEC filing states.

“It does not appear that there is substance related to the ‘lease’ agreements to warrant [EWSI] to account for gross revenue and expenses for these China based operations,” MaloneBailey’s accompanying letter of resignation read.

In April of this year, EWSI filed its

earnings report for 2013 and showed \$862,258 in revenues. An April 23 letter to shareholders quickly followed and suggested various “Invested-Assets,” including Tanke, could not be included in 2013 financials “for technical reasons,” not because they lacked substance, as MaloneBailey suggested. Had those operations been counted, EWSI contends, nearly \$20 million in revenues, much of it from China, would be added to the sub-\$1 million the company was able to book.

“What we stated there is quite factual,” Nielson asserted to *E-Scrap News*.

“Not going to be dirty”

Back in the U.S., EWSI held the grand opening for its Springdale facility on March 20 of this year. The operation is located in a quiet office park, and Nielson, Peterson and Doyle H. Webster, Springdale’s mayor, were

2013 moves and revenue expectations

EWSI was busy in 2013, issuing 43 press releases to cover all of its globe-spanning maneuvers. Several releases detailed annual revenue expectations from the new partnerships, including the acquisition of Surf Investments, a Californian computer refurbishment company, expansions into U.K. and Mexican markets, and a pact with Go EZ Deals, an online daily deal company. All told, the six deals listed to the right were predicted to bring almost \$18 million in annual revenues, a lofty public expectation based on the company’s revenues to date.

U.K. - \$2 million
 Tanke - \$5 million (\$30 million in 2014)
 Surf Investments - \$1 million
 Mexico - \$1.7 million
 Go EZ Deals - \$3 million
 2trg - \$5 million
 Total - \$17.7 million

Actual 2013 revenues, according to the firm’s federal filing: \$862,258

on hand for a ribbon cutting event.

Peterson came to EWSI when it acquired a small California computer repair company called Surf Investments – EWSI assumed more than \$220,000 in liabilities to bring Surf on, according to SEC filings – and Peterson told *E-Scrap News* she had no previous experience in electronics manufacturing and recycling. Nevertheless, she was put in charge of directing the Ohio and New York facilities. In several interviews with *E-Scrap News*, Peterson was clear about her goals and expectations for the two processing sites. “I’m one of those nitpicky, clean freak type people,” she said. “It’s not going to be dirty.”

She also said R2 and e-Stewards audits would be coming to both sites. The New York facility, which held those certifications when it was operated by 2trg, failed an audit in January, according to a representative from Orion Registrar, the company that performed the inspection. That audit occurred before EWSI began managing the site, and Peterson said the company has invested \$45,000 in recent months to improve the situation there.

The New York site is scheduled to be audited again this month and the Ohio location will be audited later this year, Peterson said. The Orion Registrar representative confirmed EWSI’s facilities will be audited “in the future.”

In the meantime, Peterson said, the facilities are open to anyone who wants to see how the firm operates. “We have an open-door policy,” she said. “There’s no appointment needed. I think that’s another way to get the credibility back.”

In early June, an *E-Scrap News* reporter took the executive up on her offer and dropped by the Springdale site. The reporter was allowed to tour the facility and found a well-organized, small-scale operation. There was no sign of CRT stockpiling, and the equipment, including a medium-sized Shred-Tech shredder, appeared to be in good working condition.

Peterson, who remains based in California, was not present the day of the reporter visit, and another EWSI staffer guided the reporter.

According to Peterson, the company sees possibility in licensing its processing protocols and brand and opening more EWSI-branded facilities across the U.S. “We’re hoping to expand to more locations this year, to get more bricks and mortar,” she said. “It’s OK to have partnerships, but let’s have more buildings. ... When you have two, three, four, five, six offices, that’s when you’re going

What’s in a name?

EWSI has said major revenue growth will come from a partnership with a firm called Tanke, Inc. According to Tanke’s website, the firm is “a diversified holding company with the mission to develop, manage and finance emerging companies.” It lists two offices: one in St. Louis and another in Shanghai.

The description of Tanke on Yahoo Finance – which is linked to as a reference several times from the company’s site – reads in full: “Tanke, Inc. produces animal feed additives. The company was formerly known as LP Holdings, Inc. and changed its name to Tanke, Inc. in 2007. Tanke, Inc. is based in Palo Alto, California.”

Depending on the source, Tanke, Inc. has headquarters in Shanghai, Palo Alto, St. Louis and Las Vegas. According to our reporting, all of the U.S. locations

are either for registration or incorporation purposes or for some type of legal counsel and no U.S.-based employees were found.

This mystery is further compounded by what some in the industry see as a possible connection between Tanke, Inc. and another Chinese firm, Tanke BioSciences, an animal feed producer. It appears that Tanke, Inc. – the company that did the deal with EWSI – in 2007 purchased an asset, Guangzhou Tanke Animal Health Ltd., from Tanke BioSciences.

We were able to reach a former employee of Tanke, Inc. who stated clearly that the company made feed for livestock and that the company had no connections, at that time, to the e-scrap industry.

For its part, EWSI says there is no connection between the two similarly named companies.

to start making money.”

Peterson was asked whether expanding in the near future would be plausible, given the significant losses indicated in the company’s 2013 financial report. Doesn’t the company need to be profitable before it branches out? “It has to be there, yes,” Peterson said, “but you can’t wait. ... We’re all trying to do our best. I do believe in this company. I’m behind Martie. I think he’s got a very good vision.”

She added she had not read the company’s earnings report for 2013.

All that glitters?

In press releases, EWSI often notes “the e-waste and reverse logistics market has

become a \$100B+ annual business.” The company cites Blumberg Advisory Group for the statistic, and it’s a figure that seems to indicate ample room for brand expansion and mega revenues in the U.S., China and elsewhere around the world.

But recent developments at other firms show that while the world continues to generate loads of end-of-life electronics, profiting on that material is anything but easy. In May and June of this year, for instance, it was reported that North America’s largest processing company, Sims Recycling Solutions, was closing facilities in New Jersey and Texas. A similar consolidation was believed to be occurring at Florida-based Creative Recycling Systems, a multi-facility processor that’s been in business since 1994.

A primer on over-the-counter stock trading

Over-the-counter (OTC) trading describes any trade of stock in some context other than a formal exchange, such as the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX) or the London Stock Exchange (LSE). Typically, companies engage in OTC trading because, for whatever reason, they are unable to meet the listing requirements of those exchanges.

OTC securities – also known as “unlisted” stocks – are traded between parties or via brokers or networks of brokers. There are several networks of dealer-brokers,

such as the OTC Bulletin Board (OTCBB) and the OTC Markets Group (OTCM), that are used as price quotation services. According to the U.S. Securities and Exchange Commission (SEC), some of these inter-dealer quotation services do “not require companies whose securities are quoted on its system to meet any eligibility requirements.”

EWSI is listed on the OTCQB, which is run by the OTCM, and, at press time, is trading at just under a penny (\$0.0095) a share.

If longtime industry stalwarts are pulling back as the market matures and CRT glass becomes a thornier issue, can EWSI make the momentous gains it keeps predicting? The firm's head answers with an unequivocal yes. "We have only grown and gotten stronger," Nielson told *E-Scrap News*.

On May 21, the day EWSI posted its 2014 first quarter results, Nielson and EWSI issued another letter to shareholders. It was a jubilant 3,000-word embrace of all the company had built and all that's seemingly yet to come. The strength of the two U.S. facilities was mentioned. So was the establishment of a company office in Shanghai and the Tanke deal. The firm also stated it was about to announce details on eWaste, eVolve and eIncubator divisions, and it previewed a piece of in-development software called eWasteTRACK™. The firm's PR and investor relations representa-

tives were mentioned by name and praised for their work.

"No other company in our industry has been able to secure such a valuable base in such a short period of time," Nielson wrote in the letter, and several weeks later he told *E-Scrap News* the company was "on track" to achieve \$50 million in revenues this year.

What, then, did that first-quarter earnings report show? According to the company's SEC filing, EWSI's Q1 revenues for 2014 came in at just over \$500,000. Expenses, meanwhile, eclipsed \$4.6 million.

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