Converted Organics Inc.
Form S-1
September 15, 2009

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As filed with the Securities and Exchange Commission on September 15, 2009
Registration No. 333-

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

Form S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Converted Organics Inc.
(Exact name of registrant as specified in its charter)

Delaware	**2873**	**20-4075963**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

7A Commercial Wharf West
Boston, MA 02110
(617) 624-0111
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Edward J. Gildea
Chief Executive Officer
7A Commercial Wharf West
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(617) 624-0111
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Security(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Units, each consisting of one share of Common Stock, $.0001 par value, and one Class H Warrant(2)	14,375,000 Units	$1.36	$19,550,000	$ 1,090.89
Shares of Common Stock included as part of the Units(2)	14,375,000 Shares			(3)
Class H Warrants included as part of the Units(2)	14,375,000 Class H Warrants			(3)
Shares of Common Stock underlying the Class H	14,375,000 Shares of	$1.63	$23,431,250	$ 1,307.47

Warrants included in the Units(4)	Common Stock			
Representative s Unit Purchase Option	1	$100.00	$100	$ 1.00
Units underlying the Representative s Unit Purchase Option (Underwriters Units)(4)	500,000 Units	$1.36	$680,000	$ 37.95
Shares of Common Stock included as part of the Underwriters Units(4)	500,000 Shares of Common Stock			(3)
Class H Warrants included as part of the Underwriters Units(4)	500,000 Class H Warrants			(3)
Shares of Common Stock underlying the Class H Warrants included in the Underwriters Units(4)	500,000 Shares of Common Stock	$1.63	$815,000	$ 45.48
Total			$44,476,350	$ 2,482.79

(1) Estimated solely for the purpose of calculating the registration fee.

(2) Includes 1,875,000 Units, 1,875,000 shares of Common Stock and 1,875,000 Class H Warrants underlying such Units which may be issued on exercise of a 45-day option granted to the Underwriters to cover over-allotments, if any.

(3) No fee pursuant to Rule 457(g).

(4) Pursuant to Rule 416, there are also being registered such additional securities as may be issued to prevent dilution resulting from stock splits, stock dividends or similar transactions as a result of the anti-dilution provisions contained in the Class H Warrants.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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Units

We are selling units, each unit consisting of one share of our common stock and one Class H warrant. Each Class H warrant entitles the holder to purchase one share of our common stock at a price of $, and will expire on December 31, 2014. The Class H warrants will be exercisable 60 days after issuance.

Our common stock and Class B warrants are quoted on the NASDAQ Capital Market under the symbols COIN and COINZ, respectively. The last sale prices of our common stock and Class B warrants on September 13, 2009 were $1.37 per share and $0.35 per share, respectively.

There is presently no public market for our units or Class H warrants, and no market for the units will exist. Each of the common stock and the Class H warrants underlying the units will begin trading separately upon the closing of this offering. We have applied to list the Class H warrants on the NASDAQ Capital Market under the symbol . We cannot assure you, however, that our securities will continue to be listed on the NASDAQ Capital Market.

These are speculative securities. Investing in our securities involves significant risks. You should purchase these securities only if you can afford a complete loss of your investment. See Risk Factors beginning on page 7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Converted Organics
Per Unit	$	$	$
Total	$	$	$

(1) This amount does not include a non-accountable expense allowance in the amount of 3% of the gross proceeds, or $ ($ per unit) payable to Chardan Capital Markets, LLC.

Delivery of the units will be made on or about , 2009. We have granted the underwriters a 45-day option to purchase up to additional units solely to cover over-allotments, if any.

In connection with this offering, we have also agreed to sell to Chardan Capital Markets, LLC an option to purchase up to 4% of the units sold for $100. If the underwriter exercises this option, each unit may be purchased for $ per unit (% of the price of the units sold in the offering).

Chardan Capital Markets, LLC

The date of this prospectus is , 2009

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information contained in this document may only be accurate on the date of this document.

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PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information that may be important to you. You should read the more detailed information contained in this prospectus, including but not limited to, the risk factors beginning on page 7. References to we, us, our, Converted Organics or the Company mean Converted Organics Inc. and its subsidiaries.

Our Company

We use food and other food processing waste as a raw material to manufacture, sell and distribute all-natural soil amendment and fertilizer products combining disease suppression and nutrition characteristics.

Our revenue comes from two sources: tip fees and product sales. Waste haulers pay the tip fees to us for accepting food waste generated by food distributors such as grocery stores, produce docks, fish markets and food processors, and by hospitality venues such as hotels, restaurants, convention centers and airports. Revenue also comes from the customers who purchase our products. Our products possess a combination of nutritional, disease suppression and soil amendment characteristics. The products are sold in both dry and liquid form and will be stable with an extended shelf life compared to other organic fertilizers. Among other uses, the liquid product is expected to be used to mitigate powdery mildew, a leaf fungus that restricts the flow of water and nutrients to plants. These products can be used either on a stand-alone basis or in combination with more traditional petrochemical-based fertilizers and crop protection products. Based on growth trial performance, increased environmental awareness, trends in consumer food preferences and company-sponsored research, we believe there will be a demand for our products in the agribusiness, turf management and retail markets. We also expect to benefit from increased regulatory focus on organic waste processing and on environmentally friendly growing practices.

We operate two manufacturing facilities, one in Woodbridge, New Jersey and the other in Gonzales, California, where we use both owned and licensed proprietary technology to produce our products.

We are positioning ourselves to take advantage of the growing market for organic products. We believe there are two primary business drivers influencing commercial agriculture. First, commercial farmers are focused on improving the economic yield of their land: maximizing the value derived from crop output (quantity and quality). Second, commercial farmers are focused on reducing the use of chemical products, while also meeting the demand for cost-effective, environmentally responsible alternatives. We believe this change in focus is the result of:

- Consumer demand for safer, higher quality food;
- The restriction on use of registered chemical products. Several U.S. government authorities, including the Environmental Protection Agency, the Food and Drug Administration, and the U.S. Department of Agriculture, or USDA, regulate the use of fertilizers;
- Environmental concerns and the demand for sustainable technologies;
- Demand for more food for the growing world population; and
- The cost effectiveness and efficacy of non-chemical based products to growers.

In this connection, according to the Organic Trade Association, sales of organic food and beverages in the United States have grown from $1 billion in 1990 to approximately $20 billion in 2007 and are expected to grow at an average of 18% per year through 2010. Furthermore, the Organic Trade Association reports that organic foods represented approximately 2.8% of total food and beverage sales in 2006, growing 20.9% in 2006, one of the fastest growing categories. According to the Nutrition Business Journal, consumer demand is driving organic sector expansion, particularly for fruit, vegetables and dairy products. This demand, in turn, is driving commercial farmers to shift more of their acreage from conventional practices, which predominantly use synthetic fertilizers, to organic practices, which require the use of certified organic fertilizers or other natural organic materials to facilitate crop growth. The USDA s Economic Research Service reports that the

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number of certified organic farm acres has grown from 0.9 million in 1992 to 4.1 million in 2005, a compound annual growth rate of 12% per year.

We believe farmers are facing pressures to change from conventional production practices to more environmentally friendly practices. U.S. agricultural producers are turning to certified organic farming methods as a potential way to lower production costs, decrease reliance on nonrenewable resources such as chemical fertilizers, increase market share with an organically grown label and capture premium prices, thereby boosting farm income.

Our long term strategic plan calls for the development and construction of facilities in addition to our Gonzales and Woodbridge facilities. In this connection, we have already done preliminary work aimed at establishing facilities in Rhode Island and Massachusetts. Any future expansion is dependent on our ability to raise additional financing beyond the proceeds we may receive from the offering contemplated by this prospectus. We may also seek to expand by licensing third parties to use our technology or by building less capital intensive, smaller facilities, if they are commercially feasible.

Opening additional facilities should allow us to achieve economies of scale in marketing and selling our fertilizer products as the cost of these activities would be spread over a larger volume of product. If our overall volume of production increases, we also believe we may be able to more effectively approach larger agribusiness customers requiring larger quantities of fertilizer to efficiently utilize their distribution systems.

We were incorporated under the laws of the state of Delaware in January 2006, and we transitioned from a development stage company to an operating company in the second quarter of 2008 as operations commenced. We generated approximately $1.5 million in revenue for the year ended December 31, 2008.

In February 2006, we merged with our predecessor organizations, Mining Organics Management, LLC and Mining Organics Harlem River Rail Yard, LLC, in transactions accounted for as a recapitalization. These predecessor organizations provided initial technical and organizational research that led to the foundation of the current business plan.

On February 16, 2007, we completed an initial public offering of stock and also completed a bond offering with the New Jersey Economic Development Authority. The net proceeds of the stock offering of $8.9 million, together with the net proceeds of the bond offering of $16.5 million, were used to develop and construct the Woodbridge facility, fund our marketing and administrative expenses during the construction period and fund specific principal and interest reserves as specified in the bond offering. Of the total net proceeds of the stock and bond offerings of $25.4 million, $14.6 million was used towards the construction of the Woodbridge facility and the remaining $10.8 million was used for items detailed above.

On January 24, 2008, we acquired the assets, including the intellectual property, of Waste Recovery Industries, LLC, or WRI . This acquisition made us the exclusive owner of the proprietary technology and process known as the High Temperature Liquid Composting or HTLC system, which processes various biodegradable waste products into liquid and solid organic-based fertilizer and feed products.

Also on January 24, 2008, we acquired the net assets of United Organic Products, LLC, which was under common ownership with WRI. With this acquisition, we acquired a leading liquid fertilizer product line, as well as the operations of the Gonzales facility.

Our principal business office is located at 7A Commercial Wharf West, Boston, Massachusetts 02110, and our telephone number is (617) 624-0111. Our website address is *www.convertedorganics.com*. Information contained on our website or any other website does not constitute part of this prospectus.

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THE OFFERING

Securities offered:	units, at $ per unit (plus additional units if the representative of the underwriters exercise the over-allotment option), each unit consisting of: one share of common stock; and one Class H warrant. Each of the common stock and the Class H warrants will begin trading separately upon the closing of this offering, and the units will not be listed on any market.
Common Stock:	
Number outstanding before this offering	20,412,708 shares
Number to be outstanding after this offering	shares (without giving effect to exercise of the Class H warrants, or any of our other outstanding options, warrants or convertible notes)
Class H Warrants:	
Number outstanding before this offering	None.
Number to be outstanding after this offering	
Exercise price	$
Securities issuable on exercise of Class H warrants	Each Class H warrant is exercisable for one share of common stock.
Exercise period	The Class H warrants will be exercisable 60 days after issuance. The Class H warrants will expire at 5:00 p.m., New York City time, on December 31, 2014.
NASDAQ Capital Market symbols for our:	
Common stock	COIN
Class B warrants	COINZ
Proposed NASDAQ Capital Market symbols for our Class H Warrants	
Risk Factors	

You should carefully consider all of the risks set forth in the section entitled Risk Factors beginning on page 7 of this prospectus.

The number of shares to be outstanding after this offering excludes:

1,248,895 shares of common stock issuable upon the exercise of outstanding options issued pursuant to our current stock option plans;

274,772 shares of common stock issuable upon the exercise of options available for future grant under our stock option plans;

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393,657 shares of common stock issuable upon the exercise of 131,219 underwriter units;

1,000,000 shares of common stock issuable upon conversion of a $1,540,000 convertible note issued in September 2009;

shares underlying a convertible note that is convertible into our common stock at the option of the holder at a price equal to the average closing price of our common stock on the NASDAQ Capital Market for the five days preceding conversion (as of September 1, 2009, the note had a remaining principal balance of approximately $458,000);

4,932,438 Class B warrants. Each Class B warrant entitles the holder to purchase one share of common stock at an exercise price of $11.00 per share. In addition, the warrant provides for anti-dilution protection in connection with our issuance of any stock dividends, which we have declared since the issuance of the warrants. Accordingly, in the aggregate, holders of the Class B warrants may currently purchase a total of 6,177,012 shares of our common stock;

885,000 shares of common stock reserved for issuance under our Class C warrants exercisable at $1.00 per share;

415,000 shares of common stock reserved for issuance under our Class D warrants exercisable at $1.02 per share;

1,500,000 shares of common stock reserved for issuance under our Class E warrants exercisable at $1.63 per share;

585,000 shares of common stock reserved for issuance under our Class F warrants exercisable at $1.25 per share; and

2,500,000 shares of common stock reserved for issuance under our Class G warrants exercisable at $1.25 per share.

Except where we state otherwise, the information we present in this prospectus assumes:

no exercise of our outstanding options;

no exercise of our outstanding warrants;

no conversion of our outstanding convertible notes;

no exercise of the underwriters unit purchase option; and

no exercise of the underwriters over-allotment option.

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SUMMARY CONSOLIDATED AND OTHER FINANCIAL DATA

The following tables summarize our consolidated financial and other data. The consolidated statements of operations data for the years ended December 31, 2008 and 2007 and the consolidated balance sheet data as of December 31, 2008 and 2007 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The consolidated statement of operations data for the six months ended June 30, 2009 and 2008, and the consolidated balance sheet data as of June 30, 2009, have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements have been prepared on a basis consistent with our audited financial statements and include, in the opinion of management, all adjustments that management considers necessary for the fair statement of the financial information set forth in those financial statements. The following financial data should be read in conjunction with, and is qualified by reference to, our consolidated financial statements and related notes and schedules included elsewhere in this prospectus and the information under Management s Discussion and Analysis of Financial Condition and Results of Operations below. Our historical results are not necessarily indicative of the results to be expected in any future period.

	Years Ended December 31,	
	2008	**2007**
Selected Operating Data:		
Revenues	$ 1,547,981	$
Cost of good sold	1,981,084	
Gross (loss)	(433,103)	
Loss from operations	(10,381,733)	(3,674,842)
Other (expenses), net	(5,797,365)	(409,170)
Loss before provision for income taxes	(16,179,098)	(4,084,012)
Net loss	(16,179,098)	(4,084,012)
Net loss per share, basic and diluted	(2.70)	(0.87)
Weighted average common shares outstanding	5,985,017	4,716,378

	As of December 31,	
	2008	**2007**
Selected Balance Sheet Data:		
Cash and cash equivalents	$ 3,357,940	$ 287,867
Property, plant and equipment	19,725,146	
Other assets	9,534,922	21,888,860
Total assets	32,618,008	22,176,727
Working capital (deficit)	(2,243,941)	663,050
Total liabilities	27,571,076	20,090,372
Total owners equity	5,046,932	2,086,355

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	Six Months Ended June 30,	
	2009	2008
Selected Operating Data:		
Revenues	$ 1,484,023	$ 752,907
Cost of good sold	3,757,264	624,548
Gross (loss) profit	(2,273,061)	128,359
Loss from operations	(7,443,230)	(5,617,669)
Other income/(expenses)	516,828	(2,920,705)
Loss before provision for income taxes	(6,926,402)	(8,538,374)
Net loss	(6,926,402)	(8,538,374)
Net loss per share, basic and diluted	(0.58)	(1.49)
Weighted average common shares outstanding	11,985,904	5,747,616

	As of June 30,	
	2009	2008
Selected Balance Sheet Data:		
Cash and cash equivalents	$ 1,808,156	$ 5,202,718
Property, plant and equipment	22,825,134	7,648,088
Other assets	6,330,777	18,710,416
Total assets	30,964,067	31,561,222
Working capital (deficit)	(3,782,563)	1,247,785
Total liabilities	26,006,202	24,481,359
Total shareholders equity	4,957,865	7,079,863

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RISK FACTORS

If you purchase our securities, you will assume a high degree of risk. In deciding whether to invest, you should carefully consider the following risk factors, as well as the other information contained elsewhere in this prospectus. Any of the following risks, as well as other risks and uncertainties discussed in this prospectus, could have a material adverse effect on our business, financial condition, results of operations or prospects and cause the value of our securities to decline, which could cause you to lose all or part of your investment.

Risks Relating to Our Business

We received a modified report from our independent registered public accounting firm with an emphasis of matter paragraph for our year ended December 31, 2008 with respect to our ability to continue as a going concern. The existence of such a report may adversely affect our stock price and our ability to raise capital, and even if we are successfully able to complete this offering, there is no assurance that we will not receive a similar emphasis of matter paragraph in their opinion for our year ending December 31, 2009.

We believe there exists substantial doubt regarding our ability to continue as a going concern unless this offering or a similar financing is consummated. Our independent registered public accounting firm has modified and included in their report for our year ended December 31, 2008 an emphasis of matter paragraph with respect to our ability to continue as a going concern. Even if we are able to complete this offering, there is no assurance that our independent registered public accounting firm will not again so emphasis this matter in their report for our year ending December 31, 2009. Our consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. If we became unable to continue as a going concern, we would have to liquidate our assets and we might receive significantly less than the values at which they are carried on our consolidated financial statements. The inclusion of a going concern modification in our independent registered public accounting firm s audit opinion for the year ended December 31, 2008 may materially and adversely affect our stock price and our ability to raise new capital, as well as adversely affect our business. In addition, if our independent registered public accounting firm s report for our year ending December 31, 2009 again has an emphasis of this matter, it may adversely affect our stock price and our ability to raise new capital in the future, as well as adversely affect our business.

We need to raise additional capital to fund our operations through the near term, and we do not have any commitments for that capital.

For the year ended December 31, 2008, we incurred a net loss of approximately $16.2 million, and had an accumulated deficit of $26.6 million. For the six months ended June 30, 2009, we had a net loss of $6.9 million, an accumulated deficit of approximately $35.7 million, negative working capital of approximately $3.7 million, and we continue to incur such losses. We need additional capital to execute our business strategy, and if we are unsuccessful in raising additional capital either through this offering or otherwise, we will be unable to fully execute our business strategy on a timely basis, if at all. If we complete this offering, we expect the funds received will be sufficient to operate our current business until we are cash flow positive, which we expect to occur by the end of the third quarter of 2010, assuming that our sales levels do not decrease and assuming that we do not encounter any unforeseen costs or expenses. If our sales levels decrease or if we encounter unforeseen costs or expenses, we will require additional financing prior to such date for which we have no commitments. The proceeds from this offering are intended to fund our current business operations, and will not permit us to finance additional facilities. If we are unable to complete this offering, we will need additional financing immediately, for which we have no commitments. We do not know whether any financing, if obtained, will be adequate to meet our capital needs and to support our growth. If adequate

capital cannot be obtained on satisfactory terms, we may curtail or delay the implementation of updates to our facilities or delay the expansion of our sales and marketing capabilities, any of which could cause our business to fail.

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If we raise additional capital through the issuance of equity securities, such issuances will likely cause dilution to our stockholders, particularly if we are required to do so during periods when our common stock is trading at historically low price levels. If we raise additional capital through the issuance of debt securities, the debt securities may be secured and any interest payments would reduce the amount of cash available to operate and grow our business.

We will need to obtain additional debt and equity financing to complete subsequent stages of our business plan.

Even if this offering is consummated, we will require significant additional financing to increase the capacity of our Woodbridge facility to its permitted 500 tons per day capacity from the current full processing capacity of 250 tons per day and to invest in the construction of new facilities. Our long-term business strategy contemplates the expansion of our Woodbridge facility and the construction of new facilities, and we do not have any commitments for the financing required to complete such projects. Any new facility will likely be individually financed and require considerable debt. While we believe state government-sponsored debt programs may be available to finance our requirements, public or private debt may not be available at all or on terms acceptable to us for the development of future facilities. We do not intend to utilize the proceeds from this offering to finance any new manufacturing facilities or to expand our Woodbridge facility.

To meet our future capital requirements, we may issue additional securities in the future with rights, terms and preferences designated by our Board of Directors, without a vote of stockholders, which could adversely affect stockholder rights. Additional financing will likely cause dilution to our stockholders and could involve the issuance of securities with rights senior to the outstanding shares. There is no assurance that such financing will be sufficient, that the financing will be available on terms acceptable to us and at such times as required, or that we will be able to obtain the additional financing required, if any, for the continued operation and growth of our business. Any inability to raise necessary capital will have a material adverse effect on our ability to implement our business strategy and will have a material adverse effect on our revenues and net income.

Constructing and equipping our Woodbridge facility has taken longer and cost more than we expected, which has resulted in significant amounts being owed to construction vendors for which we do not have the cash resources to satisfy.

Our Woodbridge facility became operational in June 2008. We incurred approximately $5.7 million in construction cost and design change overruns on an initial budget of $19.6 million. These design changes and upgrades are substantially complete, but we can offer no assurance that we will not experience additional overruns and delays before total completion.

Of the $5.7 million in upgrades, design changes and construction costs discussed above, we currently estimate that we will be able to fund approximately $500,000 in costs. In order to finance the additional $5.2 million in upgrades, design changes and construction costs, we have entered into agreements with all but one of the various construction vendors regarding payment plans, which generally provide we pay interest only for six months with the remaining principal balance and interest thereon to be repaid in 18 monthly installments. We owe approximately $2.4 million to one construction vendor with whom we are presently negotiating. Such vendor has commenced a lawsuit against us. These negotiations and legal actions could result in interruptions to the operations of our Woodbridge facility, which would adversely effect our business results.

We have limited operating history, and our prospects are difficult to evaluate.

We have not operated any facility other than our Gonzales facility, which we purchased in January 2008, and our Woodbridge facility, which became operational in June 2008. Our activities to date have been limited primarily to developing our business, and consequently there is limited historical financial information related to operations

available upon which you may base your evaluation of our business and prospects. The revenue and income potential of our business is unproven. If we are unable to develop our business, we will not

achieve our goals and could suffer economic loss or collapse, which may have a material negative effect on our financial performance.

We expect to incur significant losses for some time, and we may never operate profitably.

From inception through June 30, 2009, we incurred an accumulated net loss of approximately $27.2 million. The revenues that we began generating from our Gonzales facility in February 2008 and from our Woodbridge facility during the first half of 2009 have not yet resulted in our earning a profit and we will continue to incur significant losses for at least the near future. There is no assurance that our operations will ever become profitable.

If we are unable to manage our transition to an operating company effectively, our operating results will be adversely affected.

Failure to manage effectively our transition to an operating company will harm our business. To date, substantially all of our activities and resources have been directed at developing our business plan, arranging financing, licensing technology, obtaining permits and approvals, securing a lease for our Woodbridge facility and options for additional facilities, purchasing our Gonzales facility and beginning to operate our facilities. The transition to a converter of waste and manufacturer and vendor of fertilizer products requires effective planning and management. In addition, future expansion will be expensive and will likely strain our management and other resources. We may not be able to easily transfer our skills to operating a facility or otherwise effectively manage our transition to an operating company.

We are dependent on a small number of major customers for our revenues and the loss of any of these major customers would adversely affect our results of operations.

Our Gonzales and Woodbridge facilities rely on a few major customers for a majority of their revenues. From January 1, 2009 until August 31, 2009, approximately 71% of the revenues generated by the Gonzales facility were from three customers. From January 1, 2009 until August 31, 2009, approximately 48% of the revenues generated by the Woodbridge facility, excluding tip fees, were from two customers. We do not have any long-term agreements with any of our customers. The loss of any of our major customers could adversely effect our results of operations.

We are exposed to risks from legislation requiring companies to evaluate internal control over financial reporting.

Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404) required our management to begin to report on the operating effectiveness of our internal control over financial reporting for the year ended December 31, 2008. CCR LLP, our independent registered public accounting firm, will be required to opine on the effectiveness of our internal control over financial reporting beginning with the year ending December 31, 2009. We must continue an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements. We expect that this program will require us to incur significant expenses and to devote resources to Section 404 compliance on an ongoing annual basis.

It is difficult for us to predict how long it will take to complete management s assessment of the effectiveness of our internal control over financial reporting each year and to remediate any deficiencies in our internal control over financial reporting, if any. We are currently completing internal assessments in anticipation of our independent registered public accounting firm opining on the effectiveness of our internal control over financial reporting for the current year. Due to financial constraints, we have not yet retained any outside consultants to assist us, although we intend to hire such consultants if we are able to successfully complete this offering. As a result, we may not be able to complete the assessment process on a timely basis each year. In the event that our Chief Executive Officer, Chief Financial Officer or independent registered public accounting firm determines that our internal control over financial

reporting is not effective as defined under Section 404, we cannot predict how regulators will react or how the market prices of our securities will be affected.

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Our future success is dependent on our existing key employees, and hiring and assimilating new key employees, and our inability to attract or retain key personnel in the future would materially harm our business and results of operations.

Our success depends on the continuing efforts and abilities of our current management team. In addition, our future success will depend, in part, on our ability to attract and retain highly skilled employees, including management, technical and sales personnel. We may be unable to identify and attract highly qualified employees in the future. In addition, we may not be able to successfully assimilate these employees or hire qualified personnel to replace them. The loss of services of any of our key personnel, the inability to attract or retain key personnel in the future, or delays in hiring required personnel could materially harm our business and results of operations.

We have little or no experience in the food waste conversion or fertilizer industries, which increases the risk of our inability to build our facilities and operate our business.

We are currently, and are likely for some time to continue to be, dependent upon our present management team. Most of these individuals are experienced in business generally, and in governing and operating a public company. However, our present management team does not have experience organizing the construction, equipping and start up of a food waste conversion facility. In addition, none of our directors has any experience in the food waste conversion or fertilizer products industries. As a result, we may not develop our business successfully.

We license certain technology from a third party, and our failure to perform under the terms of the license could result in material adverse consequences.

We use certain licensed technology and patented pieces of process equipment in our Woodbridge facility that have been licensed to us by International Bio-Recovery Corporation, or IBRC. The license contains various criteria, such as the payment of royalties, the branding on packaging and the requirement to conduct our processing within certain parameters. If we fail to perform under the terms of the license, the license may be terminated by the licensor, and we will have to modify our process and employ other equipment. We currently own and employ an alternative process to that of IBRC, which is utilized at our Gonzales facility. If the license agreement is terminated or held invalid for any reason, or if it is determined that IBRC has improperly licensed its process to us, our Woodbridge operations and revenues could be adversely affected.

The EATAD technology we will use to operate our Woodbridge facility is unproven at the scale on which we intend to operate.

While IBRC has operated a facility in British Columbia using the Enhanced Autothermal Thermophilic Aerobic Digestion, or EATAD, process, its plant there is smaller than our Woodbridge facility. IBRC developed the initial drawings for our Woodbridge facility, but neither IBRC nor we have operated a plant of the proposed size. There is no assurance that we will be able to scale-up the Woodbridge facility successfully.

Our Woodbridge and Gonzales facility sites, as well as future facility sites, may have unknown environmental problems that could be expensive and time consuming to correct.

There can be no assurance that we will not encounter hazardous environmental conditions at the Woodbridge and Gonzales facility sites or any additional future facility sites that may delay the construction of our future food waste conversion facilities or require us to incur significant clean-up or correction costs. Upon encountering a hazardous environmental condition, our contractor may suspend work in the affected area. If we receive notice of a hazardous environmental condition, we may be required to correct the condition prior to continuing construction. The presence of a hazardous environmental condition will likely delay construction of the particular facility and may require

significant expenditures to correct the environmental condition. If we encounter any hazardous environmental conditions during construction that require time or money to correct, such event could delay our ability to generate revenue.

We have recently commenced operations and may not be able to successfully operate our Woodbridge or Gonzales facility.

We believe our Woodbridge facility is the first commercial facility of its kind in the United States to recycle food waste into fertilizer and may not function as anticipated. We have produced our products at our Gonzales facility since February 2008 and have had limited production from our Woodbridge facility since June 2008. As such, we have limited operating experience, and may be unable to successfully operate these facilities. In addition, the control of the manufacturing process will require operators with extensive training and experience that may be difficult to attain.

Our lack of business diversification may have a material negative effect on our financial performance.

We have two products to sell to customers to generate revenue: dry and liquid soil fertilizer products. We do not expect to have any other products. Although we also expect to receive tip fees from food waste haulers, our lack of business diversification could have a material adverse effect on our operations.

We may not be able to produce products from our facilities in commercial quantities or sell them at competitive prices.

We have produced our products at our Gonzales facility since February 2008 and have had limited production from our Woodbridge facility since June 2008. Accordingly, our ability to produce our products in commercial quantities at a competitive cost is unproven. We may not be able to produce products from our facilities in commercial quantities or sell them at prices competitive with other similar products.

We may be unable to establish marketing and sales capabilities necessary to commercialize and gain market acceptance for our products.

We currently have limited resources to expand our sales and marketing capabilities. We will need to either hire sales personnel with expertise in the markets we intend to address or contract with others to provide sales support. Co-promotion or other marketing arrangements to commercialize our planned products could significantly limit the revenues we derive from our products, and the parties with whom we would enter such agreements may fail to commercialize our products successfully. Our products address different markets and can be offered through multiple sales channels. Addressing each market effectively will require sales and marketing resources tailored to the particular market and to the sales channels that we choose to employ, and we may not be able to develop such specialized marketing resources.

Pressure by our customers to reduce prices and agree to long-term supply arrangements may adversely affect our net sales and profit margins.

Our current and potential customers, especially large agricultural companies, are often under budgetary pressure and are very price sensitive. Our customers may negotiate supply arrangements with us well in advance of delivery dates, thereby requiring us to commit to product prices before we can accurately determine our final costs. If this happens, we may have to reduce our conversion costs and obtain higher volume orders to offset lower average sales prices. If we are unable to offset lower sales prices by reducing our costs, our gross profit margins will decline, which could have a material negative effect on our financial performance.

The fertilizer industry is highly competitive, which may adversely affect our ability to generate and grow sales.

Chemical fertilizers are manufactured by many companies and are plentiful and relatively inexpensive. In addition, there are some 1,500 crop products registered as organic with the Organic Materials Review Institute, a number that

has increased by approximately 50% since 2002. If we fail to keep up with changes affecting the markets that we intend to serve, we will become less competitive, adversely affecting our financial performance.

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Defects in our products or failures in quality control could impair our ability to sell our products or could result in product liability claims, litigation and other significant events with substantial additional costs.

Detection of any significant defects in our products or failure in our quality control procedures may result in, among other things, delay in time-to-market, loss of sales and market acceptance of our products, diversion of development resources, and injury to our reputation. The costs we may incur in correcting any product defects may be substantial. Additionally, errors, defects or other performance problems could result in financial or other damages to our customers, which could result in litigation. Product liability litigation, even if we prevail, would be time consuming and costly to defend, and if we do not prevail, could result in the imposition of a damages award. We presently maintain product liability insurance; however, it may not be adequate to cover any claims.

Energy and fuel cost variations could adversely affect operating results and expenses.

Energy costs, particularly electricity and natural gas, constitute a substantial portion of our operating expenses. The price and supply of energy and natural gas are unpredictable and fluctuate based on events outside our control, including demand for oil and gas, weather, actions by OPEC and other oil and gas producers, and conflict in oil-producing countries. Price escalations in the cost of electricity or reductions in the supply of natural gas could increase operating expenses and negatively affect our results of operations. We may not be able to pass through all or part of the increased energy and fuel costs to our customers.

We may not be able to obtain sufficient material to produce our products, and we are dependent on a small number of waste haulers to provide the food waste we use to produce our products.

Our revenue comes from two sources: tip fees and product sales. We are dependent on a stable supply of food waste in order to produce our products and to utilize our available capacity. Waste haulers pay the tip fees to us for accepting food waste generated by food distributors such as grocery stores, produce docks, fish markets and food processors, and by hospitality venues such as hotels, restaurants, convention centers and airports. Insufficient food waste feedstock will adversely affect our efficiency and may cause us to increase our tip fee discount from prevailing rates,, which is the discount we pay to haulers that provide larger quantities of food waste, likely resulting in reduced revenues and net income. Competing disposal outlets for food waste and increased demand for applications such as biofuels may develop and adversely affect our business. In addition, if alternate uses for food waste are developed in the future, these alternate uses could increase the competition for food waste.

Our license agreement with IBRC restricts the territory into which we may sell our products and grants a cooperative a right of first refusal to purchase our products.

We have entered into a license agreement with IBRC that, among other terms, contains a restriction on our right to sell our planned products outside a territory defined generally as the Eastern Seaboard of the United States. The license agreement also grants a proposed cooperative, which to our knowledge has not been formed and of which IBRC will be a member, a right of first refusal to purchase the products sold from our Woodbridge facility under certain circumstances. While we believe that the territory specified in the license agreement is broad enough to absorb the amount of product we plan to produce and that the right of first refusal will not impair our ability to sell our products, these restrictions may have a material adverse effect on the volume and price of our product sales. In addition, we may become completely dependent on a third party for the sale of our products.

Successful infringement claims by third parties could result in substantial damages, lost product sales and the loss of important proprietary rights.

We may have to defend ourselves against patent and other infringement claims asserted by third parties regarding the technology we have licensed, resulting in diversion of management focus and additional expenses for the defense of claims. In addition, if a patent infringement suit was brought, we might be forced to stop or delay developing, manufacturing or selling potential products that are claimed to infringe a patent

covering a third party s intellectual property unless that party grants us rights to use its intellectual property. We may be unable to obtain these rights on terms acceptable to us, if at all. If we cannot obtain all necessary licenses on commercially reasonable terms, we may be unable to continue selling such products. Even if we are able to obtain rights to a third party s patented intellectual property, these rights may be non-exclusive, and therefore our competitors may obtain access to the same intellectual property. Ultimately, we may be unable to commercialize our potential products or may have to cease some or all of our business operations as a result of patent infringement claims, which could severely harm our business.

Our EATAD license agreement with IBRC imposes obligations on us related to infringement actions that may become burdensome or result in termination of our license agreement.

If our use of the licensed EATAD technology is alleged to infringe the intellectual property of a third party, we may become obligated to defend such infringement action. Although IBRC has agreed to bear the costs of such defense, if the licensed EATAD technology is found by a court to be infringing, IBRC could terminate the license agreement, which may prevent us from continuing to operate our Woodbridge facility. In such an event, we may become obligated to find alternative technology or to pay a royalty to a party other than IBRC to continue to operate.

If a third party is allegedly infringing on any of the licensed technology, then either we or IBRC may attempt to enforce the IBRC intellectual property rights. In general, our possession of rights to use the know-how related to the licensed technology will not be sufficient to prevent others from employing similar technology that we believe is infringing. Any such enforcement action against alleged infringers, whether by us or by IBRC, may be required to be maintained at our expense under the terms of the license agreement. The costs of such an enforcement action may be prohibitive, reduce our net income, if any, or prevent us from continuing operations.

Our HTLC technology imposes obligations on us related to infringement actions that may become burdensome.

If our use of our HTLC technology is alleged to infringe the intellectual property of a third party, we may become obligated to defend such infringement action. In such an event, we may become obligated to find alternative technology or to pay a royalty to a third party to continue to operate.

If a third party is allegedly infringing any of our HTLC technology, then we may attempt to enforce our intellectual property rights. In general, our possession of rights to use the know-how related to our HTLC technology will not be sufficient to prevent others from employing similar technology that we believe is infringing. Any such enforcement action against alleged infringers may be required at our expense. The costs of such an enforcement action may be prohibitive, reduce our net income, if any, or prevent us from continuing operations.

We have provided a bond guaranty to the holders of the bonds issued in connection with our Woodbridge facility, and the terms of the guaranty may hinder our ability to operate our business by imposing restrictive covenants, which may prohibit us from taking actions to manage or expand our business.

The terms of the bond guaranty executed by us on behalf of Converted Organics of Woodbridge LLC, prohibit us from repaying debt and other obligations that funded our working capital until certain ratios of EBITDA to debt service are met. Specifically, we were initially required to achieve a debt service ratio coverage of 2.0 to 1 during our first full year of operation, which was waived by the bond holders during 2008 and is required during 2009. We do not currently expect that we will meet the required debt service ratio coverage in 2009, which means that our bond guaranty will remain outstanding, and we will continue to be prohibited from repaying debt and other obligations that funded our working capital. The failure to meet the debt service ratio will not result in any defaults on the bonds.

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Mandatory redemption of our bonds issued in connection with our Woodbridge facility could have a material adverse effect on our liquidity and cash resources.

The bonds issued to construct our Woodbridge facility are subject to mandatory redemption by us if the Woodbridge facility is condemned, we cease to operate the facility, the bonds become taxable, a change in control occurs and under certain other circumstances. Depending upon the circumstances, such an event could require a payment to our bondholders ranging between 100% and 110% of the principal amount of the bonds outstanding, plus interest. If we are required to redeem our bonds, such redemption will have a material adverse effect on our liquidity and cash resources, and may impair our ability to continue to operate.

The communities where our facilities may be located may be averse to hosting waste handling and manufacturing facilities.

Local residents and authorities in communities where our facilities may be located may be concerned about odor, vermin, noise, increased truck traffic, air pollution, decreased property values, and public health risks associated with operating a manufacturing facility in their area. These constituencies may oppose our permitting applications or raise other issues regarding our proposed facilities or bring legal challenges to prevent us from constructing or operating facilities.

During the start-up phase at the Woodbridge facility, we experienced odor-related issues. As a result of these issues, we have been assessed fines from the Health Department of Middlesex County, New Jersey, and have been named a party in a lawsuit by a neighboring business. With respect to the fines assessed by the Health Department, we are currently contesting or attempting to negotiate the extent of the fines. With respect to the litigation, the plaintiff has alleged various causes of action connected to the odors emanating from the facility, and in addition to monetary damages is seeking enjoinment of any and all operations which in any way cause or contribute to the alleged pollution. If we are unsuccessful in defending the above litigation or any new litigation, we may be subject to judgments or fines, or our operations may be interrupted or terminated.

Our facilities will require certain permits to operate, which we may not be able to obtain or obtain on a timely basis.

For our Woodbridge facility and Gonzales facility, we have obtained the permits and approvals required to operate the facilities. We may not be able to secure all the necessary permits for future facilities on a timely basis or at all, which may prevent us from operating the facility according to our business plan.

For our facilities, we may need certain permits to operate solid waste or recycling facilities, as well as permits for our sewage connection, water supply, land use, air emission, and wastewater discharge. The specific permit and approval requirements are set by the state and the various local jurisdictions, including but not limited to city, town, county, township and state agencies having control over the specific properties. Permits once given may be withdrawn. Inability to obtain or maintain permits to construct, operate or maintain our facilities will severely and adversely affect our business.

Changes in environmental regulations or violations of such regulations could result in increased expense and could have a material negative effect on our financial performance.

We are subject to extensive air, water and other environmental regulations and need to maintain the environmental permits we have received to operate our Woodbridge and Gonzales facilities, and obtain a number of environmental permits to construct and operate our planned facilities. If for any reason any of these permits are not maintained or granted, construction costs for our food waste conversion facilities may increase, or the facilities may not be constructed at all. Additionally, any changes in environmental laws and regulations, both at the federal and state level,

could require us to invest or spend considerable resources in order to comply with future environmental regulations. We have been fined for alleged environmental violations in connection with the operation of our Woodbridge facility, and are currently contesting certain alleged environmental violations. Our failure to comply with environmental regulations could cause us to lose our required permits, which could cause the interruption or cessation of our operations. Furthermore, the expense

of compliance could be significant enough to reduce our net income and have a material negative effect on our financial performance.

Risks Related to Investment in Our Securities

We have a significant number of warrants outstanding, and while these warrants are outstanding, it may be more difficult to raise additional equity capital. Additionally, certain of these warrants contain anti-dilution provisions that may result in the reduction of their exercise prices due to the completion of this offering.

In addition to the Class H warrants being issued in this offering, we have outstanding:

4,932,438 Class B warrants. Each Class B warrant entitles the holder to purchase one share of common stock at an exercise price of $11.00 per share. In addition, the warrant provides for anti-dilution protection in connection with our issuance of any stock dividends, which we have declared since the issuance of the warrants. Accordingly, in the aggregate, holders of the Class B warrants may currently purchase a total of 6,177,012 shares of our common stock;;

885,000 Class C warrants exercisable at $1.00 per share;

415,000 Class D warrants exercisable at $1.02 per share;

1,500,000 Class E warrants exercisable at $1.63 per share;

585,000 Class F warrants exercisable at $1.25 per share; and

2,500,000 Class G warrants exercisable at $1.25 per share.

The holders of those warrants are given the opportunity to profit from a rise in the market price of our common stock. In addition, the Class B, C, D and H warrants are not redeemable by us. We may find it more difficult to raise additional equity capital while these warrants are outstanding. At any time during which these public warrants are likely to be exercised, we may be able to obtain additional equity capital on more favorable terms from other sources.

Furthermore, the Class C, D and G warrants contain anti-dilution provisions under which, if we issue, with certain exceptions, securities at a price lower than the exercise price of such warrants, the exercise price of the warrants will be reduced to the lower price; provided that the Class G warrants provide for a minimum exercise price of $1.08 per share, unless we receive stockholder approval for a lower price. The exercise price of these warrants may be reduced as a result of this offering.

The common stock and Class H warrants included in the units will trade separately upon the closing of this offering, which, along with our currently publicly traded warrants, may provide investors with an arbitrage opportunity that could adversely affect our common stock.

The common stock and Class H warrants included in the units will trade separately upon the closing of this offering. Because the units will never trade as a unit, and because we also have other publicly traded warrants, investors may be provided with an arbitrage opportunity that could depress the price of our common stock.

If we issue shares of preferred stock, your investment could be diluted or subordinated to the rights of the holders of preferred stock.

Our Board of Directors is authorized by our Certificate of Incorporation to establish classes or series of preferred stock and fix the designation, powers, preferences and rights of the shares of each such class or series without any further vote or action by our stockholders. Any shares of preferred stock so issued could have priority over our common stock with respect to dividend or liquidation rights. The issuance of shares of preferred stock, or the issuance of rights to purchase such shares, could be used to discourage an unsolicited acquisition proposal. For instance, the issuance of a series of preferred stock might impede a business combination by including class voting rights that would enable a holder to block such a transaction. In

addition, under certain circumstances, the issuance of preferred stock could adversely affect the voting power of holders of our common stock. Although our Board of Directors is required to make any determination to issue preferred stock based on its judgment as to the best interests of our stockholders, our Board could act in a manner that would discourage an acquisition attempt or other transaction that some, or a majority, of our stockholders might believe to be in their best interests or in which such stockholders might receive a premium for their stock over the then-market price of such stock. Presently, our Board of Directors does not intend to seek stockholder approval prior to the issuance of currently authorized stock, unless otherwise required by law or applicable stock exchange rules. Although we have no plans to issue any shares of preferred stock or to adopt any new series, preferences or other classification of preferred stock, any such action by our Board of Directors or issuance of preferred stock by us could dilute your investment in our common stock and warrants or subordinate your holdings to the shares of preferred stock.

You will experience immediate dilution in the book value per share of the common stock you purchase as part of the units.

Because the price per share of the common stock including in the units being offered is substantially higher than the book value per share of our common stock, you will suffer substantial dilution in the net tangible book value of the common stock you purchase in this offering. See the section entitled Dilution below for a more detailed discussion of the dilution you will incur if you purchase the units.

Future issuances or sales, or the potential for future issuances or sales, of shares of our common stock, or the exercise of warrants to purchase our common stock, may cause the trading price of our securities to decline and could impair our ability to raise capital through subsequent equity offerings.

During 2009, we have issued a significant number of shares of our common stock and warrants to acquire shares of our common stock in connection with various financings and the repayment of debt, and we anticipate that we will continue to do so in the future. The additional shares of our common stock issued and to be issued in the future upon the exercise of warrants or options could cause the market price of our common stock to decline and could have an adverse effect on our earnings per share, if and when we become profitable. In addition, future sales of a substantial number of shares of our common stock or other securities in the public markets, or the perception that these sales may occur, could cause the market price of our common stock and our Class H warrants to decline, and could materially impair our ability to raise capital through the sale of additional securities.

If we do not maintain an effective registration statement or comply with applicable state securities laws, you may not be able to exercise the Class H warrants.

For you to be able to exercise the Class H warrants, the shares of our common stock to be issued to you upon exercise of the Class H warrants must be covered by an effective and current registration statement and qualify or be exempt under the securities laws of the state or other jurisdiction in which you live. We cannot assure you that we will continue to maintain a current registration statement relating to the shares of our common stock underlying the Class H warrants. As such, you may encounter circumstances in which you will be unable to exercise the Class H warrants. Consequently, there is a possibility that you will never be able to exercise the Class H warrants, and that you will never receive shares or payment of cash in settlement of the warrants. This potential inability to exercise the Class H warrants may have an adverse effect on demand for the warrants and the prices that can be obtained from reselling them.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company s future prospects and make informed investment decisions. This prospectus contains such forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Words such as may, potential, anticipate, could, estimate, expects, projects, intends, plans, believes terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. All forward-looking statements are management s present expectations of future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Some of the factors which could cause our results to differ materially from our expectations include the following:

- consumer demand for our products;
- the availability of an adequate supply of food waste stream feedstock and the competition for such supply;
- the unpredictable cost of compliance with environmental and other government regulation;
- the time and cost of obtaining USDA, state or other product labeling designations;
- our ability to manage expenses;
- the demand for organic fertilizer and the resulting prices customers are willing to pay;
- supply of organic fertilizer products from the use of competing or newly developed technologies;
- our ability to attract and retain key personnel;
- adoption of new accounting regulations and standards;
- adverse changes in the securities markets;
- our ability to comply with continued listing requirements of the NASDAQ Capital Market; and
- the availability of and costs associated with sources of liquidity, including our ability to obtain bond financing for future facilities.

Please also see the discussion of risks and uncertainties under the heading Risk Factors above.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this prospectus might not occur. Investors are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this prospectus. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of units (assuming no exercise of the Class H warrants or the over-allotment option) by us in the offering, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, will be $ million, assuming a public offering price of $ per unit.

If a Class H warrantholder exercises its warrant, we may also receive proceeds from the exercise of the warrants. We cannot predict when, or if, the warrants will be exercised. It is possible that the warrants may expire and never be exercised.

We anticipate that we will use the net proceeds of this offering for:

Working Capital and General Corporate Purposes	$
Upgrading our Gonzales Facility	1,250,000
Investing in the Development of New Facilities	500,000
Continuing the Development of Our Licensing Program	400,000
Continuing the Development of Smaller Capacity Operating Unit Line of Business, Including Patent and Intellectual Property Development	1,000,000
Repayment of September 2009 Note(1)	1,540,000

(1) Consists of a note in the principal amount of $1,540,000, which was issued at an original issue discount of 10%. The funds from the note are being utilized for working capital.

We have no definitive agreements or commitments with respect to any of the above activities. Our management may decide to change the use of the net proceeds from this offering if opportunities or needs arise. Such opportunities and needs could include payment of certain contractual obligations, the need to make increased capital or operating expenditures if we change our business plan, or payment of an unexpected liability. The actual use of the proceeds may vary significantly and will depend on a number of factors, including our future revenue and cash generated by operations and the other factors described in the section entitled Risk Factors appearing elsewhere in this prospectus. Accordingly, our management will have broad discretion in applying the net proceeds of this offering.

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PRICE RANGE OF COMMON STOCK

Market Information

Our common stock has been listed on the NASDAQ Capital Market under the symbol COIN since March 16, 2007. Prior to March 16, 2007, there was no public market for our common stock. The following table sets forth the range of high and low sales prices per share as reported on NASDAQ for the periods indicated.

2009	High	Low
First Quarter	$ 4.16	$ 0.66
Second Quarter	$ 2.62	$ 0.72
Third Quarter (thru September 14, 2009)	$ 1.64	$ 0.92

2008	High	Low
First Quarter	$ 14.17	$ 3.93
Second Quarter	$ 10.37	$ 4.50
Third Quarter	$ 7.83	$ 2.99
Fourth Quarter	$ 6.46	$ 2.00

2007	High	Low
First Quarter	$ 2.86	$ 2.31
Second Quarter	$ 2.72	$ 2.02
Third Quarter	$ 2.83	$ 1.86
Fourth Quarter	$ 4.39	$ 2.05

Dividends

We have not declared or paid any cash dividends and do not intend to pay any cash dividends in the foreseeable future. We intend to retain any future earnings for use in the operation and expansion of our business. Any future decision to pay cash dividends on our common stock will be at the discretion of our Board of Directors and will depend upon our financial condition, results of operation, capital requirements and other factors our Board of Directors may deem relevant.

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CAPITALIZATION

The following table is derived from our unaudited financial statements as of June 30, 2009 and sets forth:

our actual capitalization as of June 30, 2009;

our capitalization on a pro forma as adjusted basis to reflect: (a) the sale of the units offered by us at an assumed public offering price of $ per unit; (b) the sale of 1,961,000 shares of our common stock issued in our July 2009 offering at a price of $1.02 per share; and (c) the repayment of the $1,540,000 note issued in September 2009.

	June 30, 2009	
	Actual	Pro Forma as Adjusted
DEBT		
Term notes payable	$ 2,269,183	$ 2,269,183
Convertible note payable	541,450	541,450
Bonds payable	17,500,000	17,500,000
Total debt	$ 20,310,633	$ 20,310,633
OWNERS EQUITY		
Preferred stock, $.0001 par value, authorized 10,000,000 shares; no shares issued and outstanding	$	$
Common stock, $.0001 par value, authorized 75,000,000 shares; 18,353,608 shares outstanding at June 30, 2009 actual; shares issued and outstanding pro forma as adjusted	1,835	
Additional paid-in capital	40,668,709	
Deficit accumulated during the development stage	(35,712,679)	
Total owners equity	$ 4,957,865	$

This table assumes no exercise by the underwriters of their option to purchase up to an additional units from us to cover over-allotments.

This table should be considered in conjunction with the sections of this prospectus captioned Use of Proceeds and Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as the financial statements and related notes included elsewhere in this prospectus.

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DILUTION

Our unaudited net tangible book value on June 30, 2009 was approximately $(1,409,729), or approximately $(0.08) per share of common stock. Net tangible book value per share is equal to the amount of our total tangible assets, less total liabilities, divided by the aggregate number of shares of common stock outstanding. Dilution per share represents the difference between the amount per unit paid by purchasers of units in this offering of $ per unit and the net tangible book value per share of our common stock immediately after this offering. After giving effect to the sale of units in this offering at a price of $ per unit (and assuming no exercise of the Class H warrants) and the sale of 1,961,000 shares of common stock in our July 2009 offering at a price of $1.02 per share, and after deducting $1,540,000 for repayment of the note issued in September 2009 and estimated offering expenses of $, our net tangible book value as of June 30, 2009 would have been approximately $, or approximately $ per share. This represents an immediate dilution of $ per share to new investors purchasing units in this offering. The following table illustrates this dilution:

Public offering price per unit		$
Net tangible book value per share as of June 30, 2009	$ (0.08)	
Increase per unit attributable to July 2009 offering and the current offering	$	
Net tangible book value per share as of June 30, 2009 after giving effect to the July 2009 offering and the sale of the shares in this offering and after giving effect to the repayment of the September 2009 note	$	
Dilution per unit to new investors		$

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and related notes to the consolidated financial statements included elsewhere in this prospectus. This discussion contains forward-looking statements that relate to future events or our future financial performance. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These forward-looking statements are based largely on our current expectations and are subject to a number of uncertainties and risks including those set forth in the Risk Factors section above. Actual results could differ materially from these forward-looking statements.

Introduction

Our operating structure is composed of our parent company, Converted Organics Inc., two wholly-owned operating subsidiaries and a 92.5% owned non-operating subsidiary. The first operating subsidiary is Converted Organics of Woodbridge, LLC, which includes the operation of our Woodbridge, New Jersey facility. The second operating subsidiary is Converted Organics of California, LLC, which includes the operation of our Gonzales, California facility. The 92.5% owned subsidiary is Converted Organics of Rhode Island, LLC, which currently has no operating activity. We construct and operate processing facilities that use food waste as raw material to manufacture all-natural soil amendment and fertilizer products combining nutritional and disease suppression characteristics. In addition to our current sales in the agribusiness and retail markets, we plan to sell and distribute our products in the turf management market. We have hired experienced sales and marketing personnel in these markets and have begun to introduce the product to the marketplace. We plan to hire additional experienced sales personnel during 2009. We also hope to achieve additional revenue by licensing the use of our technology to others.

Woodbridge Facility

We obtained a long-term lease expiring June 2026 for a site in a portion of an industrial building in Woodbridge, New Jersey that the landlord has modified and that we have equipped as our first internally-constructed food waste conversion facility. We are currently producing both liquid and dry product at that facility. In the first half of 2009, we began to record tip fee and product sales revenue; nevertheless, we are currently operating at less than full capacity at that facility, or 250 tons per day. As we have transitioned to an operating company, we have experienced operating inefficiencies. We have also experienced odor-related issues that have caused interruptions in our production. At full capacity, the Woodbridge facility is expected to process approximately 78,000 tons of food waste and produce approximately 9,900 tons of dry product and approximately 10,000 tons of liquid product annually. We have substantially completed upgrades to the Woodbridge facility, and we are presently bringing equipment on-line to fulfill our commitment to overcome operational difficulties that hampered the efficiency of the plant at opening. We believe these upgrades will allow us to achieve capacity at the facility of approximately 70% of full capacity. During the first half of 2009, we generated revenue from this facility in the form of tip fees of approximately $75,000 and product sales of approximately $277,000. In order for this facility to be cash flow positive, we estimate that total revenues from the facility would need to be in a range of $450,000 to $550,000 per month. We estimate that our products, both liquid and dry, can be sold for a price in the range of $400 to $700 per ton based on the market to which it is sold. Therefore, the potential monthly sales from this facility at 70% capacity ranges from approximately $700,000 to $1,100,000. Based on the above, we would have to produce and sell approximately 45-55% of the capacity of the Woodbridge facility to be cash flow positive at that facility, and, until our sales and production volume reach that level, we will not be cash flow positive and may therefore require additional funding to subsidize operations

at that facility. Cash flow generated by exceeding that sales/production number would be used to fund operations at the corporate level and to pay down approximately $2.4 million of the payables related to construction activity at this facility.

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UOP Acquisition; Gonzales Facility

On January 24, 2008, we acquired the net assets of United Organic Products, LLC, or UOP, which was under common ownership with Waste Recovery Industries, LLC, or WRI. With this transaction, we acquired a leading liquid fertilizer product line, as well as the Gonzales facility, which is a state-of-the-art production facility that services a strong West Coast agribusiness customer base through established distribution channels. This facility is operational and began to generate revenues for us in February 2008. The purchase price of $2,500,000 was paid in cash of $1,500,000 and notes payable of $1,000,000. The note matures on January 1, 2011, has an interest rate of 7% per annum, is payable monthly in arrears, and is convertible into our common stock at the option of the holder at a price equal to the average closing price of our common stock on the NASDAQ Capital Market for the five days preceding conversion. As of September 1, 2009, the note payable had a remaining principal balance of approximately $458,000 and the holder had converted approximately $138,000 in principal and interest on the note into 102,500 shares of our common stock.

The Gonzales facility generated revenue during the first half of 2009 of approximately $1,079,000 with a negative operating margin of approximately $77,000. In the three months ended June 30, 2009, the facility generated approximately $809,000 in sales, with a positive operating margin of approximately $68,000. We plan to continue to improve this operating margin by channeling sales into the turf and retail markets, which we believe to be more profitable, by generating tip fees from receiving additional quantities of food processing waste and by reducing the amount of raw material and freight costs currently associated with the production process. In addition, we have plans to add capacity to the Gonzales plant, whereby the plant will produce approximately three times its current production and will be capable of producing both liquid and solid products. We have completed certain aspects of the planned upgrades which allow us to receive solid food waste for processing but have delayed the upgrades which would allow us to produce dry product. The remaining upgrades have been delayed due to cash flow constraints. We intend to use the proceeds from this offering to complete the upgrades.

In order for the Gonzales facility to begin to generate cash flow from operations, it would need to generate sales levels of $200,000 per month for 2009. We estimate that the plant under its current configuration could generate monthly sales in the range of $350,000 to $400,000. If sales increase above the $200,000 per month level, we expect the additional cash flow from the Gonzales facility will be used to offset operating expenses at the corporate level. Based on sales in the latter months of the second quarter of 2009, we have achieved breakeven sales levels at the Gonzales facility.

On January 24, 2008, we entered into a 10-year lease for land in Gonzales, California, where our Gonzales facility is located. The land is leased from Valley Land Holdings, LLC, or VLH, a California limited liability company whose sole member is a former officer and director. The lease provides for a monthly rent of $9,000. The lease is also renewable for three five-year terms after the expiration of the initial 10-year term. In addition, we own the Gonzales facility and the operating equipment used in the facility.

WRI Acquisition

On January 24, 2008, we also acquired the net assets, including the intellectual property, of WRI. This acquisition makes us the exclusive owner of the proprietary technology and process known as the High Temperature Liquid Composting, or HTLC, system, which processes various biodegradable waste products into liquid and solid food waste-based fertilizer and feed products. The purchase price of $500,000 was paid with a 7% short-term note that matured and was paid on May 1, 2008. In addition, the purchase price provides for a technology fee payment of $5,500 per ton of waste-processing capacity that is added to plants that were not planned at the time of this acquisition and that use this new technology. The per ton fee is not payable on the Woodbridge facility, the facility that is being planned in Rhode Island, or the Gonzales facility acquired in the acquisition or the currently planned addition thereto, except to the extent that capacity (in excess of the currently planned addition) is added to the Gonzales facility in the

future. Also, the purchase agreement provides that if we decide to exercise our right, obtained in the WRI acquisition, to enter into a joint venture with Pacific Seafood Inc. for the development of a fish waste-processing product, we will pay 50% of our net profits, which is less the 50% of net profits paid Pacific Seafoods Inc., earned from this product to the seller

of WRI. Combined payments of both the $5,500 per ton technology fee and the profits paid from the fish waste-processing product, if any, is capped at $7.0 million with no minimum payment required. In April 2008, we entered into an agreement with Pacific Seafoods Inc. whereby we will pay Pacific Seafoods Inc. 50% of the net profits from the fish waste-processing product. To date, no profits have been earned from the fish waste-processing product. It is our intention to expense the payments, if any, that are paid on either the profits from the fish waste-processing product or the $5,500 per-ton technology fee.

Pro Forma Financial Information

The unaudited supplemental pro forma information discloses the condensed results of operations for the year ended December 31, 2008 and for the current fiscal year up to the date of the most recent interim period presented, which is the six months ended June 30, 2009 (and for the corresponding period in the preceding year) as though the business combination had been completed as of January 1, 2008 In addition, the unaudited supplemental pro forma information discloses the condensed balance sheet as of December 31, 2008 as though the business combination had been completed as of January 1, 2008.

The pro forma condensed consolidated financial information is based upon available information and certain assumptions that we believe are reasonable. The unaudited supplemental pro forma information does not purport to represent what our financial condition or results of operations would actually have been had these transactions in fact occurred as of the dates indicated above or to project our results of operations for the period indicated or for any other period.

	Twelve Months Ended December 31, 2008			
	Historical Converted Organics and Subsidiaries	Pro forma Adjustments	Reference	Pro forma Consolidated
Revenues (in thousands)	$ 1,548	$	(1)	$ 1,548
Cost of goods sold	1,981	20	(2)	2,001
General & administrative expenses	9,310	33	(3)	9,343
Net loss (in thousands)	(16,179)	(53)		(16,232)
Net loss per share basic and diluted	(2.70)			(2.71)

	Six Months Ended June 30, 2009			
	Historical Converted Organics and Subsidiaries	Pro forma Adjustments	Reference	Pro forma Consolidated
Revenues (in thousands)	$ 1,484	$		$ 1,484
Cost of goods sold	3,757			3,757
General & administrative expenses	4,176			4,176
Net loss (in thousands)	(6,926)			(6,926)
Net loss per share basic and diluted	(0.58)			(0.58)

	Six Months Ended June 30, 2008			
	Historical Converted Organics and Subsidiaries	Pro forma Adjustments	Reference	Pro forma Consolidated
Revenues (in thousands)	$ 753	$	(1)	$ 753
Cost of goods sold	625	20	(2)	645
General & administrative expenses	5,346	33	(3)	5,379
Net loss (in thousands)	(8,538)	(53)		(8,591)
Net loss per share basic and diluted	(1.49)			(1.49)

(1) No revenues are recognized in the pro forma presentation.

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(2) The acquired company incurred Cost of Goods Sold during the pre-acquisition period of approximately $20,000.

(3) The acquired company incurred General & administrative expenses of approximately $33,000 during the pre-acquisition period.

	As of December 31, 2008				
	Historical Converted Organics and Subsidiaries	Pro forma Adjustments	Reference	Pro forma Consolidated	
Current assets	$ 7,230		(1)	$ 7,230
Total assets	32,618			32,618
Current liabilities	9,474			9,474
Total liabilities	27,571			27,571
Owners equity	5,047			5,047

(1) No pro forma adjustments are made since the balances of the acquired entity are included in the balances as of December 31, 2008.

Rhode Island Facility

The Rhode Island Industrial Facilities Corporation provided initial approval to our Revenue Bond Financing Application for up to $15.0 million for the construction of a new facility in Rhode Island. In addition, the Rhode Island Resource Recovery Corporation, or RIRRC, gave us final approval to lease nine acres of land in the newly created Lakeside Commerce Industrial Park in Johnston, Rhode Island. We previously filed an application with the Rhode Island Department of Environmental Management for the operation of a Putrescible Waste Recycling Center at that site. On September 1, 2008, we entered into a twenty-year ground lease with the RIRRC under which we are obligated to pay $9,167 per month, plus $8 per ton of fertilizer (liquid or solid) sold from the facility.

Recent Financing Activities January 2008, March 2009, May 2009 and July 2009 Financings

On January 24, 2008, we entered into private financing with three investors for a total amount of $4,500,000, referred to herein as the 2008 Financing. We used the proceeds to fund the acquisition of the assets described above, to fund further development activities and to provide working capital. The 2008 Financing was offered at an original issue discount of 10%. The investors were issued convertible debentures in the amount of $4,500,000, with interest accruing at 10% per annum and with the principal balance to be paid by January 24, 2009, which deadline was extended to July 24, 2009. In addition, we initially issued to the investors an aggregate of 750,000 Class A warrants and 750,000 Class B warrants exercisable at $8.25 and $11.00 per warrant share, respectively. Of these warrants, 50% were returned to us when we obtained shareholder approval for the 2008 Financing, which was required by the NASDAQ Stock Market. A placement fee of $225,000 was paid out of the proceeds of this loan. The investors had the option, at any time on or before the extended maturity date of July 24, 2009 to convert the outstanding principal of the convertible debentures into shares of our common stock at the rate per share equal to 70% of the average of the three lowest closing prices of common stock during the 20-day trading period immediately prior to a notice of conversion. As of June 30, 2009, the investors converted the entirety of the debentures into 7,366,310 shares, reducing the principal amount of the debt to $0. In addition, the investors received 131,834 shares of common stock as interest on

the debentures during the pay-off period.

On March 6, 2009, we entered into an agreement with the holders of our $17.5 million New Jersey Economic Development Authority bonds to release $2.0 million for capital expenditures on our Woodbridge facility and to defer interest payments on the bonds through July 30, 2009. These funds had been held in a reserve for bond principal and interest payments along with a reserve for lease payments. As consideration for the release of the reserve funds, we issued the bond holders 2,284,409 Class B warrants. The Class B warrants are exercisable at $11.00 per warrant. These warrants are not registered and cannot be traded.

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On May 7, 2009, we entered into a formal agreement with an institutional investor, wherein we agreed to sell to the investor, for the sum of $1,182,500, six-month nonconvertible original issue discount notes with an aggregate principal amount of $1,331,000. The agreement provided that if we raised over $1,330,313 while the notes were outstanding, the first $1,330,313 must be used to repay the notes. Additionally, in connection with the notes issued pursuant to the agreement, the investor received five-year Class C warrants to purchase 750,000 shares and five-year Class D warrants to purchase 350,000 shares of common stock, with exercise prices of $1.00 per share and $1.02 per share, respectively, subject to certain anti-dilution rights for issuances below the exercise prices. These warrants are not registered and cannot be traded. The expense associated with the issuance of these warrants was calculated using a Black-Scholes model with the following assumptions: risk-free interest rate of 2.05%; no dividend yield; volatility factor of 96.7%; and a term of five years. We determined that the warrants issued have a fair value of $1,557,953. We recorded the relative fair value of the warrants to the underlying notes of $1,330,313 as additional-paid-in capital and established a discount on the debt. The discount was fully amortized at repayment of the note (12 days later) and at such time the entire amortization totaled approximately $637,850 for the three months ended June 30, 2009. Also pursuant to this agreement, the investment banker we utilized was issued five-year Class C warrants to purchase 135,000 shares of common stock and Class D warrants to purchase 65,000 shares of common stock with exercise prices of $1.00 per share and $1.02 per share, respectively. The expense associated with these warrants was calculated in the same manner as described above. The expense of $285,000 is included in general and administrative expense on the consolidated statements of operations for the three and six month periods ended June 30, 2009 and 2008.

On May 19, 2009, we entered into an agreement with four institutional investors whereby the investors agreed to purchase 1,500,000 shares of our common stock for $1.40 per share, providing $2.2 million before fees and expenses. The May 7, 2009 nonconvertible short-term note described above was immediately repaid with the proceeds of the May 19, 2009 offering as required under such an instrument. In addition, and as an inducement to enter into this transaction, we issued the investors 1,500,000 warrants, with a strike price of $1.40 per share and a 90-day term. We made the offering and sale of these shares and the shares underlying the warrants pursuant to a shelf registration statement.

On May 26, 2009, we entered into an amended agreement with the same four institutional investors, discussed in the prior paragraph, pursuant to which the warrants issued at $1.40 per share were exercised in full for aggregate proceeds of $2.1 million. Pursuant to such amended agreement, we agreed to issue to these investors in the aggregate Class E warrants to purchase an additional 1,500,000 shares of our common stock at an exercise price of $1.63 per share. We may redeem these warrants for $.001 per warrant share at any time after our common stock has closed at or above $2.42 for five consecutive trading days. The Class E warrants are exercisable six months after their date of issuance and expire on May 27, 2014. We made the offering and sale of these warrants and the shares underlying the warrants pursuant to a shelf registration statement.

On July 16, 2009, we sold 1,961,000 shares of common stock at $1.02 per share under our shelf registration statement. In addition, we issued 585,000 Class F warrants with an exercise price of $1.25 per share. The Class F warrants have a five-year life from the date of issuance and cannot be exercised until six months from the date of issuance.

On September 14, 2009, we entered into a formal agreement with an institutional investor, wherein we agreed to sell to the investor, for the sum of $1,400,000, a six-month convertible original issue discount note with a principal amount of $1,540,000. The agreement provided that if we raised any debt or equity financing while the note was outstanding, the first monies raised must be used to repay the note. The principal amount of the note is convertible into shares of our common stock at $1.54 per share. Additionally, in connection with the note issued, the investor received a five-year Class G warrant to purchase 2,500,000 shares of common stock, with an exercise price of $1.25 per share, subject to certain anti-dilution rights for issuances below the exercise price.

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Construction and Start-up Period

We commenced plant operations at our Woodbridge facility in June 2008, where we are processing both liquid and solid waste and producing both liquid and solid fertilizer and soil enhancement products. Construction has been substantially completed on all aspects of the facility, and we are generating both tip fee and product sales revenue. Although the plant is operating at less than full capacity we have substantially completed all plant upgrades, which will allow us to operate at 70% capacity. We had budgeted approximately $14.6 million for the design, building, and testing of our facility, including related non-recurring engineering costs. The capital outlay of $14.6 million came from the $25.4 million raised by our initial public offering of stock and the issuance of New Jersey Economic Development Bonds, both of which closed on February 16, 2007, and does not include $4.6 million of lease financing provided by the landlord of the Woodbridge facility.

The total cost of the plant exceeded the estimate of $14.6 million by approximately $2.2 million (which did not include $4.6 million of lease financing). Also, we purchased additional equipment, which will allow us to produce additional dry product, which is in high demand by the retail market. The cost of this additional equipment was approximately $1.5 million. We decided to incorporate the HTLC technology acquired from WRI into the Woodbridge facility. These costs were approximately $2.0 million, bringing the total plant cost to $20.3 million, not including lease financing. Installation of the HTLC technology and additional equipment was dependent on our ability to raise additional capital and negotiate extended payment terms with our construction vendors. We have negotiated revised payment terms with all but one of our construction vendors. This vendor has placed a lien on the property in New Jersey and commenced a lawsuit against us, which are further discussed in the Liquidity and Capital Resources section. The purpose of adding the HTLC technology to the Woodbridge facility is two-fold: first, we believe it will significantly lower operating costs, most notably utility costs as the need to evaporate significant amounts of liquid byproduct would no longer be necessary, and second, the non-evaporated liquid can be used in the production process and sold as additional product.

During the start up phase at the Woodbridge facility, we experienced emissions violations related to odor issues. We were fined by the Middlesex County Health Department for these violations and we subsequently hired additional consultants to assist with the correction process. In late July 2009, we began implementing operational procedures at the plant which were recommended by the odor control consultants and since then we have not experienced significant odor issues; however, we have not obtained release from the Middlesex County Health Department concerning this issue and there is no assurance that we can obtain such a release. As of September 3, 2009, the total amount of fines levied by the Middlesex County Health Department total $356,250, of which we have paid $87,750, and we are either contesting or negotiating the unpaid balance of $268,500, based on the date of violation. The financial statements at June 30, 2009 include an accrued liability of $75,000 related to the unpaid balance.

Full-scale Operations

Full capacity at the Woodbridge facility would provide processing capacity of approximately 250 tons per day. As discussed above, we have completed the necessary upgrades to the Woodbridge facility, which are expected to allow us to increase capacity at the facility to approximately 70% of full capacity. We have two revenue streams: (1) tip fees that in our potential markets range from $40 to $80 per ton, and (2) product sales. Tip fees are paid to us to receive the food waste stream from waste haulers; the hauler pays us, instead of a landfill, to take the waste. If the haulers source separate and pay in advance, they are charged tip fees that are up to 20% below market.

Operations at the Gonzales facility began in February 2008 with the production of approximately 25 tons per day of liquid fertilizer. This output is presently being sold into the California agricultural market. We have completed certain upgrades to the plant that allow us to accept solid food waste for processing. We have not completed the upgrades that allow us to produce a solid fertilizer product, as we have delayed those enhancements due to cash flow restrictions.

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Critical Accounting Policies and Estimates

Our plan of operation is based in part upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the recoverability of tangible and intangible assets, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of expenses during the periods covered. A summary of accounting policies that have been applied to the historical financial statements can be found in the notes to the consolidated financial statements.

We evaluate our estimates on an on-going basis. The most significant estimates relate to intangible assets, deferred financing and issuance costs, and the fair value of financial instruments. We base our estimates on our historical and industry experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which, form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from those estimates.

The following is a brief discussion of our critical accounting policies and methods, and the judgments and estimates used by us in their application:

Revenue Recognition

Revenue is recognized when each of the following criteria is met:

- persuasive evidence of a sales arrangement exists;
- delivery of the product has occurred;
- the sales price is fixed or determinable; and
- collectability is reasonably assured.

In those cases where all four criteria are not met, we defer recognition of revenue until the period where these criteria are satisfied. Revenue is generally recognized upon shipment.

Share-Based Compensation

Share-based compensation issued to employees is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period (generally the vesting period of the grant). Share-based compensation issued to non-employees is measured at grant date, based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more readily measurable, and is recognized as an expense over the requisite service period. Stock options granted in 2008 were calculated at the date of grant using a Black-Scholes pricing model with the following assumptions: risk-free interest rate of 3.52%; no dividend yield; expected volatility factor of 52.3%; and an expected term of five years. The fair value for the 10,000 immediately vesting stock options granted in 2007 was estimated at the date of grant using a Black-Scholes pricing model with the following assumptions: risk-free interest rate of 4.9%; no dividend yield; expected volatility factor of 16.9%; and an expected term of five years. Estimates and judgments used in the preparation of our financial statements are, by their nature, uncertain and unpredictable, and depend upon, among other things, many factors outside of our control, such as the results of our operations and other economic conditions. Accordingly, our estimates and judgments may prove to be incorrect and actual results may differ, perhaps significantly, from these estimates under different estimates,

assumptions or conditions.

Other Long-Lived Assets

Long-lived assets and certain intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, such as technological changes or

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significantly increased competition. If undiscounted expected future cash flows are less than the carrying value of the assets, an impairment loss is to be recognized based on the fair value of the assets, calculated using a discounted cash flow model. There is inherent subjectivity and judgments involved in cash flow analyses such as estimating revenue and cost growth rates, residual or terminal values and discount rates, which can have a significant impact on the amount of any impairment.

Other long-lived assets, such as identifiable intangible assets, are amortized over their estimated useful lives. These assets are reviewed for impairment whenever events or circumstances provide evidence that suggests that the carrying amount of the assets may not be recoverable, with impairment being based upon an evaluation of the identifiable undiscounted cash flows. If impaired, the resulting charge reflects the excess of the assets carrying cost over its fair value. As described above, there is inherent subjectivity involved in estimating future cash flows, which can have a significant impact on the amount of any impairment. Also, if market conditions become less favorable, future cash flows (the key variable in assessing the impairment of these assets) may decrease and as a result we may be required to recognize impairment charges in the future. Estimates and judgments used in the preparation of our financial statements are, by their nature, uncertain and unpredictable, and depend upon, among other things, many factors outside of our control, such as the results of our operations and other economic conditions. Accordingly, our estimates and judgments may prove to be incorrect and actual results may differ, perhaps significantly, from these estimates under different estimates, assumptions or conditions.

Capitalization of Interest Costs

We have capitalized interest costs, net of certain interest income, related to our New Jersey Economic Development Authority bonds in the amount of $1,077,689 and $403,573 as of December 31, 2008 and December 31, 2007, respectively. Capitalized interest costs during the construction phase of the Woodbridge facility are included in construction-in-progress on the consolidated balance sheets.

Construction-in-Progress

Construction-in-progress includes amounts incurred for construction costs, equipment purchases and capitalized interest costs for items still under construction related to the construction of the Woodbridge facility.

Restricted Cash

As of December 31, 2008, we had remaining approximately $2,608,000 of restricted cash as required by our bond agreement. This cash was raised by us in our initial public offering and bond financing, both of which closed on February 16, 2007, and is set aside in three separate accounts consisting of $34,000 for the construction of the Woodbridge facility, $8,000 for the working capital requirements of the Woodbridge subsidiary while the facility is under construction, and $2,028,000 in reserve for bond principal and interest payments along with a reserve for lease payments. In March 2009, the bondholder released $2,000,000 of these restricted funds for us to use and therefore we have classified cash as a current asset on our balance sheet as of December 31, 2008. We have classified this restricted cash as non-current to the extent that such funds are to be used to acquire non-current assets or are to be used to service non-current liabilities. Third-party trustee approval is required for disbursement of all restricted funds.

Consolidation

Our consolidated financial statements include the transactions and balances of Converted Organics Inc. and its subsidiaries, Converted Organics of California, LLC, Converted Organics of Woodbridge, LLC and Converted Organics of Rhode Island, LLC. The transactions and balances of Valley Land Holdings, LLC, a variable interest entity of Converted Organics of California, LLC, were also consolidated therein until April 1, 2009. All intercompany

transactions and balances have been eliminated in consolidation.

The consolidated financial statements included Valley Land Holdings, LLC, or VLH, as VLH had been deemed to be our variable interest entity as it was the primary beneficiary of that variable interest entity

following the acquisition of the net assets of United Organic Products, LLC. VLH s assets and liabilities consist primarily of cash, land and a mortgage note payable on the land on which the California facility is located. Its operations consist of rental income on the land from us and related operating expenses. In 2009, the sole member of VLH contributed cash and property to VLH in a recapitalization. VLH has henceforth been sufficiently capitalized and is no longer considered to be a variable interest entity of us. We have deconsolidated VLH as a variable interest entity as of April 1, 2009 in our financial statements.

Fair Value Measurements

We have partially implemented SFAS No. 157, Fair Value Measurements (SFAS No. 157) for assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value. This standard only applies when other standards require or permit the fair value measurement of assets and liabilities. It does not increase the use of fair value measurement. The standard is effective for fiscal years beginning after November 15, 2008. The major categories of assets and liabilities that have not been measured and disclosed using SFAS No. 157 fair value guidance are property and equipment and goodwill.

Earnings (Loss) Per Share

Basic earnings (loss) per share, or EPS, is computed by dividing the net income (loss) attributable to the common stockholders (the numerator) by the weighted average number of shares of common stock outstanding (the denominator) during the reporting periods. Diluted income (loss) per share is computed by increasing the denominator by the weighted average number of additional shares that could have been outstanding from securities convertible into common stock, such as stock options and warrants (using the treasury stock method), and convertible preferred stock and debt (using the if-converted method), unless their effect on net income (loss) per share is antidilutive. Under the if-converted method, convertible instruments are assumed to have been converted as of the beginning of the period or when issued, if later. The effect of computing the diluted income (loss) per share is antidilutive and, as such, basic and diluted earnings (loss) per share are the same for the three and six month periods ended June 30, 2009 and 2008.

Results of Operations for the Six Months Ended June 30, 2009 and 2008

During the six months ended June 30, 2009, we had sales of approximately $1,484,000, compared to $753,000 for the same period in 2008. During 2009, we had cost of goods sold of approximately $3,757,000, leaving a negative gross margin of approximately $2,273,000, compared to $625,000 cost of goods sold and $128,000 gross margin for the same period in 2008. The negative gross margins in 2009 were generated due to high production costs (salaries, rents, depreciation, supplies, etc.) at both our Woodbridge and Gonzales facilities and low sales and production volume. We expect gross margin to improve in the future as we increase production and expand our sales efforts into the more profitable retail and agricultural markets. Of the $2,273,000 negative gross margin in the six months ended June 30, 2009, approximately $77,000 was generated at our Gonzales facility due to sales volumes not yet being high enough to cover all fixed production costs, higher than anticipated production and transportation costs, and approximately $2,215,000 in negative gross margin was generated at our Woodbridge facility due to low sales volume and fixed costs associated with the facility.

During the three months ended June 30, 2009, we had sales of approximately $992,000, compared to $493,000 for the same period in 2008. During 2009, we had cost of goods sold of approximately $2,113,000, leaving a negative gross margin of approximately $1,120,000, compared to $403,000 cost of goods sold and $90,000 gross margin for the same period in 2008. Of the $1,120,000 negative gross margin in the three months ended June 30, 2009, approximately $68,000 positive gross margin was generated at our Gonzales facility, and the Woodbridge facility generated $1,180,000 of negative gross margin.

We incurred general and administrative expenses of approximately $4,175,000 and $5,346,000 for the six-month periods ended June 30, 2009 and 2008, respectively. The principal components of the approximately $1,171,000 decrease in general and administrative expenses is due to allocation of rent, production salaries and

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utilities to cost of sales in 2009, along with a decrease in compensation expense associated with the issuance of stock options of $2,140,000. This was offset by an increase in professional fees associated with financing activities and general costs of growing the business.

We incurred general and administrative expenses of approximately $2,503,000 and $3,759,000 for the three-month periods ended June 30, 2009 and 2008, respectively. The principal components of the approximately $1,256,000 decrease in general and administrative expenses are similar in nature to the components of the decrease in the six-month activity described above.

We incurred depreciation expense of approximately $626,000 and $7,000 for the six months ended June 30, 2009 and 2008, respectively, and $306,000 and $3,000 for the three months ended June 30, 2009 and 2008, respectively. The increase in depreciation expense is due to assets placed in service and depreciated, particularly at the Woodbridge facility.

We recognized derivative accounting gains of $3,565,000 and $0 in the six-month periods ended June 30, 2009 and 2008, respectively, and derivative gains of $2,153,000 and $0 in the three months ended June 30, 2009 and 2008, respectively. These gains are non-cash in nature.

Interest expense for the six months ended June 30, 2009 and 2008 was $3,110,000 and $3,127,000, respectively. The components of interest expense for the period ended June 30, 2009 are: (i) recognition of $562,000 of interest expense associated with the extension of the convertible debentures issued in January 2008, which became due in January 2009 and which were extended until July 2009 (200,000 shares of common stock were issued in connection with such extension), (ii) recognition of approximately $660,000 of interest expense associated with the issuance of warrants in connection with the March 6, 2009 financing arrangement with the holders of our bonds, and approximately $920,000 of interest expense associated with the issuances of warrants related to short-term non-convertible notes issued in the quarter, and (iii) recognition of $700,000 in interest expense on our New Jersey Economic Development Authority bonds, and approximately $268,000 on our other various borrowings during the six months ending June 30, 2009.

Interest expense for the six months ended June 30, 2008 comprised (i) $176,000 of interest expense on various short-term notes; (ii) recognition of approximately $2,093,000 in connection with borrowing transactions, primarily non-cash items; (iii) $700,000 on our NJ EDA bonds; and (iv) approximately $158,000 in penalties associated with convertible debt.

As a result of the variances described above, for the six months ended June 30, 2009, net loss was $6.9 million, compared to $8.5 million for the same period in 2008. For the three months ended June 30, 2009, the net loss was $3.0 million versus $6.1 million for the same period in 2008.

As of June 30, 2009, we had current assets of approximately $3.5 million, compared to $7.2 million as of December 31, 2008. Our total assets were approximately $30.9 million as of June 30, 2009, compared to approximately $32.6 million as of December 31, 2008. The majority of the decrease in current assets from December 31, 2008 to June 30, 2009 is due to the use of cash for working capital requirements.

As of June 30, 2009, we had current liabilities of approximately $7.3 million, compared to $9.5 million at December 31, 2008. This decrease is due largely to the conversion of debt into shares of our common stock, and the negotiation of term notes with our construction vendors, which moved some of that liability from current to non-current. In addition, we had long-term liabilities of approximately $18.8 million as of June 30, 2009 as compared to $18.1 million at December 31, 2008. The increase is due to the reclassification of amounts owed to construction vendors to long-term liabilities.

For the six months ended June 30, 2009, we had negative cash flow from operating activity of approximately $4.1 million, comprising primarily loss from operations offset by certain non-cash items such as depreciation, non-cash interest expense associated with the issuance of warrants, amortization of deferred financing fees and amortization of discounts on private financing, and an increase in accounts payable and accrued expenses. We also had negative cash flow from investing activities of $985,000, primarily related to construction at the Woodbridge facility, offset by the release of restricted cash set aside for that purpose. The

negative cash flow from both operating and investing activities was offset by approximately $3.6 million in positive cash flow from financing activities comprising proceeds from our various equity transactions.

Results of Operations for the Years Ended December 31, 2008 and 2007

For the period from inception (May 3, 2003) until December 31, 2007, we were a development stage company with no revenues. We began to earn revenues from our Gonzales and Woodbridge facilities during 2008, and therefore we are no longer reporting as a development stage company.

During the year ended December 2008, we had sales of approximately $1.5 million, compared to $0 for the same period in 2007. During 2008, we had cost of goods sold of approximately $2.0 million, leaving a negative gross margin of approximately $433,000, compared to $0 cost of goods sold and $0 gross margin for the same period in 2007. The sales and negative gross margins were derived primarily from both our Gonzales and Woodbridge facilities. The negative gross margin was generated in the third and fourth quarters and is further explained below. Of the $433,000 negative gross margin in the year ended December 31, 2008, approximately $275,000 was generated at our Gonzales facility due to lower than expected sales volume and higher than anticipated production and transportation costs, and approximately $158,000 in negative gross margin was generated at our Woodbridge facility due to low sales volume and the start up nature of the facility.

We incurred operating expenses of approximately $10.3 million and $3.7 million for the years ended December 31, 2008 and 2007, respectively. The principal components of the $6.6 million increase in operating expenses is an increase in general and administrative expenses of $6.3 million (due mainly to an increase in general and administrative expenses of $1.4 million for additional personnel and other costs associated with the start up of the Woodbridge facility, $829,000 in additional expenses associated with the Gonzales facility, $500,000 in additional personnel at the corporate offices, $290,000 in expense related to the issuance of stock for remuneration for services rendered, $200,000 in professional fees relating to private placement financing, $150,000 relating to recognition of liquidated damages associated with the private placement financing, an additional $200,000 in amortization of intangible assets acquired from UOP and WRI, and $2.3 million recognized as compensation expense upon the issuance of employee stock options as calculated using the Black-Scholes pricing model), offset by a $350,000 reduction in research and development costs.

Interest expense for the years ended December 31, 2008 and 2007 was $5.8 million and $1.2 million, respectively. The increase is due to the interest payments on the convertible debentures issued in the 2008 Financing described above; amortization of the original issue discount on the convertible debentures issued in the 2008 Financing; and amortization of the discount related to the beneficial conversion feature of the convertible debentures issued in the 2008 Financing and other convertible debt. Interest income was $290,000 in the year ended December 31, 2008 and $824,000 for the same period in 2007. The decrease is due to our declining balances in restricted cash.

Amortization of other intangible assets expense was $399,000 for the year ended December 31, 2008 and $62,000 during the same period in 2007. The increase is due to amortization of costs associated with the convertible debentures issued in the 2008 Financing, which are being amortized over the life of the loan.

For the year ended December 31, 2008, net loss was $16.2 million, compared to $4.1 million for the same period in 2007. The increase in net loss primarily represents the effects of the increase in our operating costs and interest expense, as discussed above.

As of December 31, 2008, we had current assets of approximately $7.2 million, compared to $3.2 million as of December 31, 2007. Our total assets were approximately $32.6 million as of December 31, 2008 compared to approximately $22.2 million as of December 31, 2007. The majority of the increase in both current and total assets

from December 31, 2007 to December 31, 2008 is due to receipt of approximately $11.3 million in cash from the voluntary exercise of our Class A warrants and $3.0 million in net assets acquired with our acquisitions of UOP and WRI.

As of December 31, 2008, we had current liabilities of approximately $9.5 million, compared to $2.5 million at December 31, 2007. This significant increase is due largely to the convertible debentures issued

in the 2008 Financing, net of discounts of $230,000 and loans issued in association with our acquisitions of UOP and WRI, and an increase in accounts payable to construction-related vendors. In addition, we had long-term liabilities of approximately $18.1 million as of December 31, 2008, as compared to $17.6 million at December 31, 2007. This increase is primarily due to the issuance of long-term notes payable in association with our acquisition of UOP and WRI.

For the twelve months ended December 31, 2008, we had negative cash flow from operating activity of approximately $7.3 million, comprising primarily loss from operations offset by certain non-cash items such as depreciation, amortization of deferred financing fees and amortization of discounts on private financing, $2.3 million in expense associated with the grant of stock options and an increase in accounts payable and accrued expenses. We also had negative cash flow from investing activities of $4.7 million, primarily related to the purchase of UOP assets and construction at the Woodbridge facility, offset by the release of restricted cash set aside for that purpose. The negative cash flow from both operating and investing activities was offset by approximately $15.0 million in positive cash flow from financing activities comprising approximately $11.3 million from the exercise of warrants, and $3.7 million from the proceeds of the January 24, 2008 private financing.

Liquidity and Capital Resources

At June 30, 2009, we had total current assets of approximately $3.5 million consisting primarily of cash, accounts receivable, inventories and prepaid assets, and had current liabilities of approximately $7.3 million, consisting primarily of accounts payable, accrued expenses and notes payable, leaving us with negative working capital of approximately $3.8 million. Non-current assets totaled $27.4 million and consisted primarily of property and equipment, intangible assets and construction in process. Non-current liabilities of $18.7 million consist primarily of bonds payable of $17.5 million and the long-term portion of our term notes payable of $1.2 million at June 30, 2009. We have an accumulated deficit at June 30, 2009 of approximately $35.7 million. Owners equity at June 30, 2009 was approximately $5.0 million. For the first half of 2009, we generated revenues from operations of approximately $1,484,000.

At June 30, 2009, our current liabilities are greater than our current assets by approximately $3.8 million. We have trade accounts payable of approximately $4.3 million, of which approximately $2.4 million relates to construction at the Woodbridge facility. We have come to agreement with three of our four construction vendors for extended payment terms with interest. Those vendors have agreed to release their liens upon receipt of final payment. We continue to negotiate with the fourth vendor, who has filed a lien against our assets and has commenced a lawsuit for breach of contract. The funds from the debt and equity offerings we recently completed have not been used towards payment of the construction vendor amounts and we are currently negotiating with the vendor to issue a note for the outstanding amounts owed.

Our independent registered public accountants have issued a going-concern opinion on our financial statements as of December 31, 2008. We had incurred a net loss of approximately $16.2 million during the year ended December 31, 2008, had a working capital deficiency as of December 31, 2008, and an accumulated deficit of approximately $26.6 million. As of June 30, 2009, we continued to have a working capital deficiency, and for the six months ended June 30, 2009, we had a net loss of $6.9 million and an accumulated deficit of approximately $35.7 million.

Our plan to become cash flow positive and to work through our current working capital deficit is as follows:

We currently have manufacturing capabilities in our Woodbridge and Gonzales facilities as a means to generate revenues and cash. Our cash requirements on a monthly basis are approximately $275,000 at the corporate level, $500,000 for Woodbridge and $200,000 for Gonzales. Currently, only the Gonzales facility is generating enough cash flow to cover its cash requirements, leaving us with a cash shortfall of approximately $775,000 per month. We

estimate that at the current production capacity we could provide enough product to achieve additional revenues of $1,000,000 to $1,500,000 per month, which at those levels would provide sufficient cash flow to cover our cash requirements, including additional variable costs associated with increased production. Until such sales levels are achieved and we are cash flow positive, we will have to seek

additional means of financing in order to cover the shortfall. During the first half of 2009, we reduced the entire $4.5 million convertible debenture balance from our January 24, 2008 financing by converting the balance into shares of our common stock. In addition, during the first quarter of 2009, the holders of the New Jersey Economic Development Authority bonds released $2.0 million of escrowed funds for us to use and we obtained $1,331,000 of secured debt financing. We raised another $4.2 million in capital through the issuance of common stock and the exercise of warrants. In September 2009, we raised $1.4 million by the issuance of a convertible note in principal amount of $1.54 million, which included an original issue discount of 10%, and the issuance of warrants to purchase 2,500,000 shares of common stock at an exercise price of $1.25 per share. In addition, we have a shelf registration statement which would allow us to sell shares into the market to raise additional financing of up to $2.0 million, provided that pursuant to SEC rules we may not access the $2.0 million available under the shelf registration statement until our stock price is at or above $1.86. We are using the proceeds from the debt and equity offerings we completed during the year to fund working capital requirements and to add additional sales and marketing personnel in order to achieve increased sales levels during the remainder of 2009. Specifically, we are seeking sales personnel to assist with sales of liquid product into the agricultural market. Also, we continue to expand our sales efforts into the retail market by increasing the number of sales presentations to the retail channel for orders to be placed for early 2010 delivery.

We need additional capital to execute our business strategy, and if we are unsuccessful in either raising additional capital through this offering or otherwise, we will be unable to fully execute our business strategy on a timely basis, if at all. If we complete this offering, we expect the funds received will be sufficient to operate our current business until we are cash flow positive, which we expect to occur by the end of the third quarter of 2010, assuming our sales levels do not decrease and assuming we do not encounter any unforeseen costs or expenses. If our sales levels decrease or if we encounter unforeseen costs or expenses, we will require additional financing prior to such date for which we have no commitments. The proceeds from this offering are intended to fund our current business operations, and will not permit us to finance additional facilities. If are unable to complete this offering, we will need additional financing in the short-term for which we have no commitments. We do not know whether any financing, if obtained, will be adequate to meet our capital needs and to support our growth. If adequate capital cannot be obtained on satisfactory terms, we may curtail or delay the implementation of updates to our facilities or delay the expansion of our sales and marketing capabilities, any of which could cause our business to fail.

During this period of limited cash availability, we have lowered costs in the administrative areas of the company and concentrated on production in both Woodbridge and Gonzales. In addition, we have and will continue to be required to curtail certain production and sales costs until sales orders begin to increase to the desired levels, and most notably we will have to limit the production of product to two variations of liquid and dry product and the desired sales level will have to be derived from those products.

We do not have any commitments for additional equity or debt funding, and there is no assurance that capital in any form would be available to us, and if available, on terms and conditions that are acceptable. Moreover, we are not permitted to borrow any future funds unless we obtain the consent of the holders of the New Jersey Economic Development Authority bonds. We have obtained such consent for prior financing, but there is no guarantee that we can obtain such consent in the future.

Off-Balance Sheet Transactions

We do not engage in material off-balance sheet transactions.

BUSINESS

Overview

During 2008, we transitioned from a development stage company (our first reported revenues were in February 2008) to a fully operational company that operates processing facilities that use food waste as raw material to manufacture all-natural soil amendment and fertilizer products combining nutritional and disease suppression characteristics. In addition to our sales in the agribusiness market, we sell and distribute our products in the turf management and retail markets. We currently operate two facilities:

Woodbridge facility. A facility in Woodbridge, New Jersey that we have equipped as our first internally-constructed food waste conversion facility, referred to herein as the Woodbridge facility. Operations at the Woodbridge facility began in late June of 2008, and include processing solid waste and producing both liquid and dry fertilizer and soil enhancement products.

Gonzales facility. A facility in Gonzales, California, referred to herein as the Gonzales facility, that we acquired in January 2008. The Gonzales facility is operational and began to generate revenue for us in February 2008.

We were incorporated under the laws of the state of Delaware in January 2006. In February 2006, we merged with our predecessor organizations, Mining Organics Management, LLC, or MOM, and Mining Organics Harlem River Rail Yard, LLC, or HRRY, in transactions accounted for as a recapitalization. These predecessor organizations provided initial technical and organizational research that led to the foundation of the current business plan.

On February 16, 2007, we successfully completed an initial public offering of stock and successfully completed a bond offering with the New Jersey Economic Development Authority. The net proceeds of the stock offering of $8.9 million, together with the net proceeds of the bond offering of $16.5 million, were used to develop and construct the Woodbridge facility, fund our marketing and administrative expenses during the construction period and fund specific principal and interest reserves as specified in the bond offering. Of the total net proceeds of the stock and bond offerings of $25.4 million, $14.6 million was used towards the construction of the Woodbridge facility and the remaining $10.8 million was used for items detailed above.

On January 24, 2008, we acquired the assets, including the intellectual property, of Waste Recovery Industries, LLC, or WRI. This acquisition makes us the exclusive owner of the proprietary technology and process known as the High Temperature Liquid Composting, or HTLC, system, which processes various biodegradable waste products into liquid and solid organic-based fertilizer and feed products.

Also on January 24, 2008, we acquired the net assets of United Organic Products, LLC, or UOP, which was under common ownership with WRI. With this acquisition, we acquired a leading liquid fertilizer product line, as well as the Gonzales facility, which is a production facility that services a West Coast agribusiness customer base through established distribution channels.

Our Revenue Sources

Our revenue comes from two sources: tip fees and product sales. Waste haulers pay tip fees to us for accepting food waste generated by food distributors such as grocery stores, produce docks, fish markets and food processors, and by hospitality venues such as hotels, restaurants, convention centers and airports. Revenue also comes from the

customers who purchase our products. Our products possess a combination of nutritional, disease suppression and soil amendment characteristics. The products are sold in both dry and liquid form and will be stable with an extended shelf life compared to other organic fertilizers. Among other uses, the liquid product is expected to be used to mitigate powdery mildew, a leaf fungus that restricts the flow of water and nutrients to plants. Our products can be used either on a stand-alone basis or in combination with more traditional petrochemical-based fertilizers and crop protection products. Based on growth trials we have conducted with local farmers, company-sponsored research, increased environmental awareness and trends in consumer food preferences, we believe our products will have demand in the agribusiness, turf management

and retail markets. We also expect to benefit from increased regulatory focus on food waste processing and on environmentally friendly growing practices.

Our Woodbridge Facility

We obtained a long-term lease expiring June 2026 for a site in a portion of an industrial building in Woodbridge, New Jersey that the landlord has modified and that we have equipped as our first internally-constructed food waste conversion facility. We are currently producing both liquid and dry product at that facility. In the first half of 2009, we began to record tip fee and product sales revenue; nevertheless, we are currently operating at less than full capacity at that facility, or 250 tons per day. As we have transitioned to an operating company, we have experienced operating inefficiencies. We have also experienced odor-related issues that have caused interruptions in our production. At full capacity, the Woodbridge facility is expected to process approximately 78,000 tons of food waste and produce approximately 9,900 tons of dry product and approximately 10,000 tons of liquid product annually. We have substantially completed upgrades to the Woodbridge facility, and we are presently bringing equipment on-line to fulfill our commitment to overcome operational difficulties that hampered the efficiency of the plant at opening. We believe these upgrades will allow us to achieve capacity at the facility of approximately 70% of full capacity. During the first half of 2009, we generated revenue from this facility in the form of tip fees of approximately $75,000 and product sales of approximately $277,000. In order for this facility to be cash flow positive, we estimate that total revenues from the facility would need to be in a range of $450,000 to $550,000 per month. We estimate that our products, both liquid and dry, can be sold for a price in the range of $400 to $700 per ton based on the market to which it is sold. Therefore, the potential monthly sales from this facility at 70% capacity ranges from approximately $700,000 to $1,100,000. Based on the above, we would have to produce and sell approximately 45-55% of the capacity of the Woodbridge facility to be cash flow positive at that facility, and, until our sales and production volume reach that level, we will not be cash flow positive and may therefore require additional funding to subsidize operations at that facility. Cash flow generated by exceeding that sales/production number would be used to fund operations at the corporate level and to pay down approximately $2.4 million of the payables related to construction activity at this facility.

As of June 30, 2009, we have outstanding amounts due to our New Jersey construction vendors of approximately $4.2 million. With the exception of one contractor, we have negotiated with our remaining contractors to issue notes or otherwise repay approximately $1.8 million of the outstanding amounts owed. We have not been able to negotiate payment terms with one contractor owed approximately $2.4 million who has placed a lien on the Woodbridge facility and has commenced a lawsuit in the matter.

We have agreements with 11 waste-hauling companies to provide food waste to the Woodbridge facility. Based on our current processing capacity, we are primarily utilizing three haulers that provide almost all of the food waste we need for our facility. We believe that we have an adequate supply of raw material to operate the plant at full processing capacity.

Our Woodbridge facility receives raw material from the New York-Northern New Jersey metropolitan area. It is located near the confluence of two major highways in northern New Jersey, providing efficient access for the delivery of feedstock from throughout this geographic area.

Our conversion process has been approved for inclusion in the Middlesex County and New Jersey State Solid Waste Management Plan. We have been granted our Class C recycling permit, which is the primary environmental permit for this project. The remaining required permits are primarily those associated with the construction and operation of any manufacturing business, which we have also obtained.