Converted Organics Inc.
Form 424B4
June 17, 2008

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Filed pursuant to Rule 424(b)(4)
Registration No. 333-135174

3,286,218 Shares of Common Stock
131,219 Class A Warrants
131,219 Class B Warrants

This prospectus covers the sale of up to:

2,892,561 shares of our common stock to be issued upon the exercise of redeemable Class A warrants and non-redeemable Class B warrants issued in our initial public offering as a component of the units sold by us in the offering;

131,219 shares of our common stock, 131,219 Class A warrants and 131,219 Class B warrants to be issued upon the exercise of the underwriter s warrants issued by us in connection with our initial public offering; and

262,438 shares of our common stock to be issued upon the exercise of the Class A warrants and Class B warrants underlying the underwriter s warrants.

In addition, this prospectus covers additional shares issuable pursuant to the Class A warrants and Class B warrants as a result of stock dividends declared by us since the issuance of the warrants.

Our initial public offering was completed on February 12, 2007. Holders of the Class A warrants and Class B warrants issued as a component of the units sold by us in the offering may currently purchase 1.276 shares of common stock for each warrant exercised. This includes the additional shares issuable as a result of the stock dividends we have declared since the issuance of the warrants through April 14, 2008. The Class A warrants and the Class B warrants are exercisable at $8.25 per share and $11.00 per share, respectively, at any time on or before February 13, 2012.

The underwriter s warrants were issued by us in connection with our initial public offering and are dated as of February 16, 2007. The holder of the underwriter s warrants may purchase up to an aggregate of 131,219 units, each unit consisting of one share of our common stock, one Class A warrant and two Class B warrants, each warrant to purchase 1.276 shares of common stock. This includes the additional shares issuable as a result of the stock dividends we have declared since the issuance of the units through April 14, 2008. The representative s warrants are exercisable at $6.60 per unit and expire on February 13, 2012.

Our common stock, Class A warrants and Class B warrants are quoted on the Nasdaq Capital Market under the symbols COIN, COINW and COINZ. The last sale price of the common stock, Class A warrants and Class B warrants on May 22, 2008 was $7.91, $3.97 and $4.55, respectively.

These are speculative securities. Investing in the units 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 3.

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.

The date of this prospectus is June 16, 2008.

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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 3. References to we, us, our, Converted Organics or the Company mean Converted Organics Inc. and its wholly owned subsidiaries.

The Offering

We are registering 3,286,218 shares of our common stock issuable by us upon exercise of outstanding Class A warrants, Class B warrants and the underwriter s warrants. These shares include:

2,892,561 shares issuable to public investors that received Class A warrants and Class B warrants from us as a component of the units sold in our initial public offering of securities. The redeemable Class A warrants give those investors the right to purchase 1,093,261 shares of our common stock at $8.25 per share at any time on or before February 13, 2012. The non-redeemable Class B warrants give those investors the right to purchase 1,799,300 shares of our common stock at $11.00 per share at any time on or before February 13, 2012. In addition, the holders of the warrants are entitled to additional shares issuable pursuant to the Class A warrants and Class B warrants as a result of stock dividends declared by us since the issuance of the warrants. As of the date of this prospectus, each Class A warrant and Class B warrant may currently purchase 1.276 shares of common stock for each warrant exercised.

393,657 shares issuable to the underwriter of our initial public offering pursuant to units issuable upon exercise of the underwriter s warrants issued in connection with the offering (including shares issuable upon the exercise of the Class A warrants and Class B warrants underlying the units at $8.25 and $11.00 per share, respectively). This does includes the additional shares issuable in connection with the exercise of the warrants as a result of the stock dividends we have declared since the issuance of the warrants through April 14, 2008.

We are also registering 131,219 Class A warrants and 131,219 Class B warrants issuable upon exercise of the underwriter s warrants granted by us in connection with our initial public offering. The holder of the underwriter s warrants may purchase up to an aggregate of 131,219 units, each unit consisting of one share of our common stock, one Class A warrant and one Class B warrant. The representative s warrants are exercisable at $6.60 per unit and expire on February 13, 2012.

Common stock outstanding	5,554,277 shares as of May 12, 2008
Use of proceeds	We will receive the exercise price upon the exercise of any Class A or Class B warrants. We intend to use the proceeds to purchase capital equipment and pay engineering and design fees for the construction of our third processing line; to purchase and install equipment to permit us to manufacture market specific product; and for working capital purposes.
Nasdaq Capital Market symbols	Common stock: COIN Class A warrants: COINW Class B warrants: COINZ
Risk factors	Investing in these units involves a high degree of risk. As an investor you should be able to bear a complete loss of your investment. You should carefully consider the information set forth in the Risk Factors section of this prospectus.

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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.

We had 5,554,277 shares of common stock issued and outstanding as of May 12, 2008. Unless the context indicates otherwise, all share and per-share common stock information in this prospectus:

- assumes no additional exercises of the Class A and Class B warrants;
- assumes no additional exercises of the representative s warrant;
- assumes no issuance of stock dividends pursuant to our stock dividend program after April 14, 2008; and
- excludes 513,000 shares underlying outstanding options under our 2006 Stock Option Plan; and
- excludes 1,013,667 shares reserved under our 2006 Stock Option Plan for future issuance.

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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 are an early-stage venture with limited operating history, and our prospects are difficult to evaluate.

Until the first quarter of 2008 when we initially began to report revenues, we had not operated any facility, nor had we sold any products. Our activities have been limited to developing our business, and consequently there is no 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.

For the period from May 2, 2003 (inception of our predecessor companies) through March 31, 2008, we incurred an accumulated net loss of approximately $12.8 million. Despite generating revenue from our Gonzales facility beginning in February 2008, we will continue to incur significant losses. In order to achieve profitability, we must successfully complete the construction of our proposed Woodbridge, New Jersey facility, the expansion of our Gonzales, California facility, and become fully operational at each facility. There is no assurance that we will be successful in our efforts to build and operate an organic waste conversion facility. Even if we successfully meet our objectives and begin full operations, there is no assurance that we will be able to operate or maintain profitability.

We are generating nominal cash flow from operations, have limited sources of liquidity, and are restricted in our ability to borrow additional funds.

We commenced operations at our Gonzales facility in the first quarter of 2008, and this facility is our sole means of generating internal cash. Approximately $14.6 million of the net proceeds from our February 2007 equity and bond offerings, together with $4.6 million of lease financing provided by the landlord, will be used to build our Woodbridge facility , which is expected to commence operations at the end of the second quarter of 2008. We believe that the remaining $10.8 million net proceeds from the equity and bond offerings, along with the proceeds of the exercise of our publicly held Class A Warrants, which totaled approximately $6.0 million during the first quarter of 2008, and revenues from the Gonzales facility, will be sufficient to sustain our operations until the Woodbridge facility is completed, and, if the completion is delayed, until at least the end of 2008. Notwithstanding the foregoing, we will be required to raise additional funds in order to build our planned facility in Rhode Island, to refinance our current debt, or if we were to encounter unexpected expenses in connection with our operations. We do not have any commitments for additional equity or debt funding, and, moreover, we would not be permitted to borrow any future funds unless we obtain the consent of the bondholders of the New Jersey Economic Development Bonds.

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, and purchasing and upgrading our Gonzales facility. 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.

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Our plan to develop relationships with strategic partners and vendors may not be successful.

As part of our business strategy, we will need to develop short- and long-term relationships with strategic partners and vendors to conduct growth trials and other research and development activities, to assess technology, to engage in marketing activities, and to enter into waste collection, real estate development and construction agreements. For these efforts to succeed, we must identify partners and vendors whose competencies complement ours. We must also enter into agreements with them on attractive terms and integrate and coordinate their resources and capabilities with our own. If we are unsuccessful in our collaborative efforts, our ability to develop and market products could be severely limited or delayed.

We may be unable to effectively implement new transaction accounting, operational and financial systems.

To manage our operations, we will be required to implement complex transaction accounting, operational and financial systems, procedures and controls, and to retain personnel experienced in the use of these systems. Deficiencies in the design and operation of our systems, procedures and controls, including internal controls, could adversely affect our ability to record, process, summarize and report material financial information. Our planned systems, procedures and controls may be inadequate to support our future operations.

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. 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 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.

Constructing and equipping our Woodbridge facility may take longer and cost more than we expect.

Equipping and completing our Woodbridge facility has required and will continue to require a significant investment of capital and substantial engineering expenditures, and is subject to significant risks, including risks of delays, equipment problems, cost overruns, including the cost of raw materials such as stainless steel, and other start-up and operating difficulties. Our conversion processes at the Woodbridge facility will use custom-built, patented equipment that may not be delivered and installed in our facility in a timely manner for many reasons, including but not limited to the inability of the supplier of this equipment to perform. In addition, this equipment may take longer and cost more to debug than planned and may never operate as designed. If we experience any of these or similar difficulties, we may be unable to complete our Woodbridge facility, and our results may be materially affected. We also may encounter similar difficulties in constructing and equipping our future facilities which may also have a material and adverse effect on our operating results.

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

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, but not organizing the construction, equipping and start up of an organic waste conversion facility, and governing and operating a public company. In addition, none of our directors has any experience in the organic waste or fertilizer products industries. As a result, we may not develop our business successfully.

We will depend on contractors unrelated to us to build our Woodbridge facility, and their failure to perform could harm our business, and hinder our ability to operate profitably.

We have entered into guaranteed maximum price contracts with construction, mechanical, and electrical contractors to build our Woodbridge facility. Although we believe each of these companies is qualified, we have no prior experience with any of them. If any company were to fail to perform, there is no assurance that we would be able to obtain a suitable replacement on a timely basis.

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

We intend to use certain licensed technology and patented pieces of process equipment in our Woodbridge facility that will be obtained from International Bio-Recovery Corporation, or IBRC. The license contains various performance criteria, and 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 that may not be available on a timely basis or at all. If we are unable to use different technology and equipment, we may not be able to operate the Woodbridge facility successfully. 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, the occurrence of such event will adversely affect our Woodbridge operations and revenues.

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

While IBRC has operated a facility in British Columbia using the Enhanced Autothermal Thermophilic Aerobic Digestion process, or EATAD, its plant is smaller than our planned Woodbridge facility. IBRC developed the initial drawings for our Woodbridge facility, but neither IBRC nor we have operated a plant of the proposed size.

Our Woodbridge facility site may have unknown environmental problems that could be expensive and time consuming to correct, which may delay construction and delay our ability to generate revenue.

There can be no assurance that we will not encounter hazardous environmental conditions at the Woodbridge facility site or any additional facility sites that may delay the construction of our organic waste conversion facilities. 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 may not be able to successfully operate our Woodbridge facility.

Although we intend to hire a firm with substantial operational experience to operate our Woodbridge facility, we have not developed or operated any manufacturing facilities of any kind. Our Woodbridge facility, if completed, would be the first commercial facility of its kind in the United States and may not function as anticipated. In addition, the control of the manufacturing process will require operators with extensive training and experience which may be difficult to attain.

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

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

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

To date, we have not produced any products other than from our Gonzales facility. We may not be able to manufacture products from our Woodbridge facility or other planned 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 potential products.

We currently have limited 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 these parties may fail to commercialize these products successfully. Our planned 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.

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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, the number of fertilizer products registered as organic with the Organic Materials Review Institute increased by approximately 50% from 2002 to 2005. 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.

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. We do not presently maintain product liability insurance, and any product liability insurance we may obtain may not be adequate to cover claims.

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

Energy costs, particularly electricity and natural gas, are expected to 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 organic material.

Competing disposal outlets for organic food waste and increased demand for applications such as biofuels may develop and adversely affect our business. To fully utilize the tip floor and to manufacture our products, we are dependent on a stable supply of organic food waste. Insufficient food waste feedstock will adversely affect our efficiency and may cause us to increase our tip fee discount from prevailing rates, resulting in reduced revenues and net income.

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

We have entered into a license agreement with IBRC which 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 of which IBRC is 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 easily 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. We may in addition become completely dependent on a third party for the sale of our products.

Our fertilizer products from our Woodbridge facility will be sold under an unproven name.

Our licensing agreement with IBRC requires that we market our planned products from our Woodbridge facility under the brand name Genica. No fertilizer products have been sold in our geographic market under that name, and the name may not be accepted in our marketplace.

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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, as a result of a patent infringement suit, we may 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 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 IBRC licensed 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 technology is found by a court to be infringing, IBRC may terminate the license agreement, which may prevent us from continuing to operate our conversion 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 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 High Temperature Liquid Composting, or 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.

Development of our business is dependent on our ability to obtain additional debt financing which may not be available on acceptable terms.

We may need to obtain significant debt financing in order to develop manufacturing facilities and begin production of our products. Each facility will likely be individually financed and require considerable debt. While we believe state government-sponsored debt programs will be available to finance our requirements, market rate or non-government sponsored debt could also be used. However, public or private debt may not be available at all or on terms acceptable to us for the development of future facilities.

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

We will need to obtain additional debt and equity financing to complete subsequent phases of our business plan. 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 your 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 funds 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 execute our business plan, and will have a material adverse effect on our revenues and net income.

Our agreements with our bond investor may hinder our ability to operate our business by imposing restrictive loan covenants, which may prohibit us from borrowing additional funds, repaying other indebtedness or paying dividends or taking other actions to manage or expand our business.

The terms of the bond guaranty executed by us as manager of Converted Organics of Woodbridge LLC, prohibit us from paying debt and other obligations that funded our working capital until certain ratios of Earnings Before Interest, Taxes, Depreciation and Amortization to debt service are met. As of March 31, 2008, we had approximately $375,000 and $90,000 of indebtedness, other than our bonds, which mature on December 31, 2008 and May 2, 2009, respectively.

Mandatory redemption of our bonds could have a material adverse effect on our liquidity and cash resources.

Our bonds 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 of the company 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, plus interest. If we are unable to obtain additional financing from other sources, the requirement that we pay cash in connection with such mandatory 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 or oppose our construction of 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.

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, we must obtain various permits and approvals to operate a recycling center and a manufacturing facility, including among others a Class C recycling permit, land use and site plan approval, an air quality permit, a water discharge permit, a storm water runoff permit, and building construction permits. We may not be able to secure all the necessary permits on a timely basis or at all, which may prevent us from operating the facility according to our business plan.

For our additional 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. Lack of 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 will be subject to extensive air, water and other environmental regulations and will need to obtain a number of environmental permits to construct and operate our planned facilities. If for any reason any of these permits are not granted, construction costs for our organic 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. The expense of compliance could be significant enough to reduce our net income and have a material negative effect on our financial performance.

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Our strategic plan for development and construction of operating facilities in Rhode Island, Massachusetts and New York requires additional debt and/or equity financing and working capital during the construction periods.

Our strategic plan calls for us to develop and build future operating facilities. These facilities will require us to raise additional fund for the development and construction of these facilities and for working capital during the construction process. There is no guarantee that we will be able to raise those funds.

As a public company, we are subject to complex legal and accounting requirements that require us to incur substantial expense and expose us to risk of non-compliance.

As a public company, we are subject to numerous legal and accounting requirements. The cost of compliance with many of these requirements is substantial, not only in absolute terms but, more importantly, in relation to the overall scope of the operations of a small company. Our inexperience with these requirements may increase the cost of compliance and may also increase the risk that we will fail to comply. Failure to comply with these requirements can have numerous adverse consequences including, but not limited to, our inability to file required periodic reports on a timely basis, loss of market confidence, delisting of our securities, and governmental or private actions against us. We cannot assure you that we will be able to comply with all of these requirements or that the cost of such compliance will not prove to be a substantial competitive disadvantage vis-à-vis our privately held competitors as well as our larger public competitors.

Risks Related to Investment in Our Securities

The Class A warrants may be redeemed on short notice, which may have an adverse effect on their price.

Once the registration statement of which this prospectus is a part becomes effective, we may redeem the Class A warrants for $0.25 per warrant on 30 days notice at any time after the date on which the last reported sale price per share of our common stock as reported by the principal exchange or trading facility on which our common stock trades equals or exceeds $9.35 for five consecutive trading days. If we give notice of redemption, holders of our Class A warrants will be forced to sell or exercise the Class A warrants they hold or accept the redemption price. The notice of redemption could come at a time when, under specific circumstances or generally, it is not advisable or possible for holders of our public warrants to sell or exercise the Class A warrants they hold.

While the Class A and Class B warrants are outstanding, it may be more difficult to raise additional equity capital.

During the term that the Class A warrants and Class B warrants are outstanding, 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 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.

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. 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.

Future issuances or sales, or the potential for future issuances or sales, of shares of 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.

We have agreed to pay a 5% common stock dividend to holders of record of our common stock at the end of each calendar quarter, beginning with the first quarter of 2007, until the Woodbridge facility has commenced commercial operations. The additional shares of our common stock distributed pursuant to such stock dividends 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 A and Class B warrants to decline, and could materially impair our ability to raise capital through the sale of additional securities.

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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 A or Class B warrants.

For you to be able to exercise the Class A or Class B warrants, the shares of our common stock to be issued to you upon exercise of the Class A or Class B 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 A or Class B warrants. If at their expiration date the warrants are not currently exercisable, the expiration date will be extended for 30 days following notice to the holders of the warrants that the warrants are again exercisable. If we cannot honor the exercise of warrants, and the securities underlying the warrants are listed on a securities exchange or if there are three independent market makers for the underlying securities, we may, but are not required to, settle the warrants for a price equal to the difference between the closing price of the underlying securities and the exercise price of the warrants. In summary, you may encounter circumstances in which you will be unable to exercise the Class A or Class B warrants. In those circumstances, we may, but are not required to, redeem the warrants by payment in cash. Consequently, there is a possibility that you will never be able to exercise the Class A or Class B warrants, and that you will never receive shares or payment of cash in settlement of the warrants. This potential inability to exercise the Class A or Class B warrants, and the possibility that we will never elect to settle warrants in shares or cash, 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

This prospectus contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements concern our operations , economic performance and financial condition and are based on our current expectations, assumptions, estimates and beliefs about us and our industry. When we use words such as believe, expect, anticipate, estimate, intend, plan, may, will, could, potential, project or simil making forward-looking statements.

These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other important factors, some of which are beyond our control, which could cause our actual results to differ materially from our expectations. These risks, uncertainties and other factors are described under Risk Factors and discussed elsewhere in this prospectus.

We caution you not to place undue reliance on forward-looking statements. These cautionary statements should not be construed by you to be exhaustive, and they are made only as of the date of this prospectus.

USE OF PROCEEDS

We may receive gross proceeds of up to $33.3 million, before deducting expenses estimated at $50,000, from the exercise of the Class A warrants and Class B warrants, the representative s warrants and the Class A warrants and Class B warrants underlying the representative s warrants. We will retain discretion over the use of the net proceeds we may receive from this offering, but we currently intend to use such proceeds, if any, to purchase capital equipment and pay engineering and design fees for the construction of our third processing line , to purchase and install equipment to permit us to manufacture market specific product , and for working capital purposes.

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DIVIDEND POLICY

Beginning with the first quarter of 2007, we approved the disbursement of a 5% common stock dividend to all holders of record of our common stock at the end of each calendar quarter until our Woodbridge facility commences commercial operations. We paid the dividend at the end of each quarter of 2007 and at the end of the first quarter of 2008. Pursuant to the stock dividend program, we will not issue fractional shares or shares with respect to the calendar quarter in which we commence commercial operations.

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. The terms of our New Jersey bond issue will restrict our ability to pay cash dividends. Any future decision to pay cash dividends on common stock will be at the discretion of our board of directors and will depend upon, in addition to the terms of the New Jersey bond financing as well as any future bond or bank financings, our financial condition, results of operations, 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 March 31, 2008 and sets forth our:

Actual capitalization as of March 31, 2008;

Pro forma capitalization as of March 31, 2008 after giving effect to: (i) the exercise of all outstanding Class A and Class B Warrants at $8.25 per warrant and $11.00 per warrant, respectively; (ii) the exercise of 131,219 underwriter warrants for 131,219 units (a unit comprising one share of common stock and one Class A Warrant and one Class B Warrant); (iii) the exercise of 131,219 Class A warrants issued pursuant to (ii) above, and the exercise of 131,219 Class B warrants issued pursuant to (ii) above.

	March 31, 2008	
	Actual	Pro Forma as Adjusted
DEBT		
Term notes payable	$ 464,170	$ 375,000
Note payable	2,320,813	2,320,813
Convertible note payable - current	940,594	940,594
Promissory note	500,000	500,000
Mortgage payable	254,290	254,290
Bonds payable	17,500,000	17,500,000
Total debt	21,979,867	21,890,697
OWNERS EQUITY		
Preferred stock, $.0001 par value, authorized 25,000,000 shares; no shares issued and outstanding	$	$
Common stock, $.0001 par value, authorized 75,000,000 shares, 5,528,010 shares issued and outstanding at March 31, 2008 actual; 9,685,954 shares issued and outstanding pro forma as adjusted	552	968
Additional paid-in capital	21,214,816	53,418,114
Member s equity	28,549	28,549
Deficit accumulated during the development stage	(12,774,590)	(12,774,590)
Total owners equity	8,469,327	40,673,041

This table should be considered in conjunction with the sections of this registration statement 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 by reference elsewhere in this registration statement.

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DILUTION

Our Class A warrants are redeemable by us at any time for $.25 per warrant, so you may be required to either exercise the Class A warrant for $8.25 per warrant or have them redeemed. Our Class B warrants are not redeemable by us. If you exercise your warrants your interest will be diluted to the extent of the difference between the exercise price of our warrants and the as adjusted net tangible book value per share of our common stock after this offering. Below we illustrate the dilution you will incur if all our Class A warrants are exercised, and if all our Class A warrants and Class B warrants are exercised.

Dilution Upon Exercise of Class A Warrants

Our net tangible book value as of March 31, 2008 was $8,469,327 or $1.53 per outstanding share of common stock. Without giving effect to any changes in the net tangible book value after March 31, 2008 other than:

- the exercise of 1,093,261 Class A warrants at $8.25 per warrant;
- the exercise of 131,219 underwriter units at $6.60 per unit; and
- the exercise of 131,219 Class A (underwriter) warrants at $8.25 per warrant;

our pro forma net tangible book value at March 31, 2008 was $19,437,332 or $2.82 per outstanding share of common stock. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of our warrants in this offering and the net tangible book value per share of our capital stock immediately afterwards. This represents an immediate increase of $1.29 per share of capital stock to existing stockholders and an immediate dilution of $5.25 per share of common stock to the new investors who exercise Class A warrants in this offering. The following table illustrates this per share dilution:

Weighted average exercise price of warrants		$ 8.07
Net tangible book value as of March 31, 2008	$ 1.53	
Increase in net tangible book value per share attributable to new investors	$ 1.29	
As adjusted net tangible book value per share after this offering		2.82
Dilution in net tangible book value to new investors		$ 5.25

Dilution Upon Exercise of Class A and Class B Warrants

Our net tangible book value as of March 31, 2008 was $8,469,327 or $1.53 for outstanding share of common stock. Without giving effect to any changes in the net tangible book value after March 31, 2008 other than:

- the exercise of 1,093,261 Class A warrants at $8.25 per warrant;
- the exercise of 1,799,300 Class B warrants at $11.00 per warrant;
- the exercise of 131,219 underwriter units at $6.60 per unit
- the exercise of 131,219 Class A (underwriter) Warrants at $8.25 per warrant; and
- the exercise of 131, 219 Class B (underwriter) warrants at $11.00 per warrant;

our pro forma net tangible book value at March 31, 2008 was $40,673,041 or $4.61 per outstanding share of common stock. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of our warrants in this offering and the net tangible book value per share of our capital stock immediately afterwards. This

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represents an immediate increase of $3.08 per share of capital stock to existing stockholders and an immediate dilution of $5.19 per share of common stock to the new investors who exercise the Class A and Class B warrants in this offering. The following table illustrates this per share dilution:

Weighted average exercise price of warrants		$ 9.80
Net tangible book value as of March 31, 2008	$ 1.53	
Increase in net tangible book value per share attributable to new investors	$ 3.08	
As adjusted net tangible book value per share after this offering		4.61
Dilution in net tangible book value to new investors		$ 5.19

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

You should read the following discussion and analysis of financial condition and results of operations together with our consolidated financial statements and accompanying notes incorporated by reference in this prospectus. See Incorporation by Reference. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those set forth under Risk Factors, Special Note Regarding Forward-Looking Statements and elsewhere in this prospectus.

Introduction

Our operating structure is composed of our parent company, Converted Organics Inc., and two wholly owned operating subsidiaries. The first is Converted Organics of Woodbridge, LLC, which includes the start up operation of our Woodbridge, New Jersey facility, and second, Converted Organics of California, LLC, which includes the operating activity of our Gonzales, California facility. We are transitioning from a development stage company that first recorded revenues during the first quarter of 2008 (of approximately $260,000) to a fully operational company that constructs and operates processing facilities that will use food waste as raw material to manufacture all-natural soil amendment products combining nutritional and disease suppression characteristics. In addition to our current sales in the agribusiness market, we plan to sell and distribute our products in the turf management and retail markets.

Woodbridge Facility

As of May 1, 2008, we had expressions of interest for approximately 55% of the output from our planned Woodbridge facility. We have obtained a long-term lease for a site in a portion of an industrial building in Woodbridge, New Jersey that the landlord is modifying and that we will equip as our first internally constructed organic waste conversion facility. We currently have no operations at that facility and do not expect to generate revenue from that facility until it is operational, and we expect to commence operations at the end of the second quarter of 2008. When fully operational, the Woodbridge facility is expected to process approximately 78,000 tons of organic food waste and produce approximately 7,500 tons of dry product and 6,700 tons of liquid concentrate annually. During the first four to six months of operations at our Woodbridge facility we expect to incur operating losses and we may not generate sufficient cash to pay for the anticipated operating expenses. We plan to use funds we have already received from the exercise of Class A warrants to fund the working capital requirements at that facility until it becomes cash flow positive. We currently estimate that we must achieve a sales level of $550,000 per month to be cash flow positive at the Woodbridge facility. We hope to achieve sales at that level per month before the end of 2008.

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 an entity called Waste Recovery Industries, LLC, or WRI. With this acquisition, we acquired a leading liquid fertilizer product line, as well as our 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 February 1, 2011, has an interest rate of 7% per annum, is payable monthly in arrears, and is convertible into our common stock six months after the acquisition date for a price equal to the average closing price of our common stock on the Nasdaq market for the five days preceding conversion.

The Gonzales facility generated revenue during the first quarter of 2008 of approximately $260,000, and we plan to increase revenue from the Gonzales facility by increasing its production capacity. We intend to fund the build-out needed to increase capacity at the Gonzales facility from the $4.5 million received from the January 2008 financing described below. We plan to add capacity to the Gonzales plant during the first nine months of 2008, whereby the plant would produce approximately three times its current production and would be capable of producing both liquid and solid products.

We expect that the cash flow generated from the Gonzales facility will be sufficient to sustain its operation regardless of whether we are able to increase capacity. If capacity is increased, we expect the cash flow from the

Gonzales facility for the year to offset some of the losses we expect to incur in connection with the start up of the Woodbridge facility and remainder of our operations. However, the cash flow will not be sufficient to offset all of the anticipated losses.

WRI Acqusition

On January 24, 2008, we acquired the 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 the HTLC system, which processes various biodegradable waste products into liquid and solid organic-based fertilizer and feed products. The purchase price of $500,000 was paid with a 7% short-term note that matured and was repaid on May 1, 2008. Interest on that note was paid monthly. In addition, the purchase agreement 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 (which we refer to as the Eureka product), we will pay 50% of our net profits earned from this Eureka product to the seller of WRI. Combined payments of both the $5,500 per ton technology fee and the profits paid from the Eureka 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 Seafood 50% of the net profits from the Eureka product. As of the date hereof, no profits have been earned from the Eureka product. The contingent profit-sharing payments under our agreement with Pacific Seafoods will be accounted for as expenses of the appropriate period, in accordance with EITF 95-8, Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination. In addition, we may be obligated to make certain technology payments under our purchase agreement with WRI. We estimate that no such payments will be payable in the twelve months following the acquisition. Payments, if any, after that will be expensed as incurred.

January 2008 and Bridge Financing

On January 24, 2008, we entered into a private financing with three investors for a total amount of $4,500,000. The financing was offered at an original issue discount of 10%. We used the proceeds to fund the acquisitions described above, to fund further development activities and to provide working capital. As consideration for the financing, the investors received a note in the amount of $4,500,000 with interest accruing at 10% per annum to be paid monthly and with the principal balance to be paid by January 24, 2009. In addition, we issued to the investors 750,000 Class A warrants and 750,000 Class B warrants, exercisable at $8.25 and $11.00 per warrant share, respectively. A placement fee of $225,000 was paid from the proceeds of this loan.

In connection with the financing, we agreed we would have a shareholder vote to seek approval to issue a convertible debenture in exchange for the note with an interest rate of 10% per annum which would be convertible into common stock. In April 2008, we received shareholder approval and the note was replaced by this convertible debenture and one half of each of the Class A warrants and of the Class B warrants issued were returned to us. The convertible debenture provides the investors the option, at any time on or before maturity date, which is January 24, 2009, to convert the outstanding principal of the convertible debenture into shares of our common stock at the rate per share equal to the lowest of (a) the fixed conversion price of $6.00 per share, (b) the lowest price, conversion price or exercise price set by us in any equity financing transaction, convertible security, or derivative instrument issued after January 24, 2008, or (c) the default conversion price, which is, if and so long as there exists an event of default, 70% of the average of the three lowest closing prices of common stock during the twenty day trading period immediately prior to the notice of conversion.

In connection with the financing, we entered into a registration rights agreement with the investors which called for us to register the securities within certain time periods. We had 10 days from shareholder approval, with an additional 7 day extension, to register the shares issuable under the convertible debenture and we had 90 days from the filing of a registration statement (filed on February 13, 2008) for the warrants and the underlying shares to be declared effective by the SEC. We filed the registration statement relative to the convertible debenture concurrently with this prospectus and the registration statement filed for the warrants has not been declared effective. The registration rights agreement calls for $90,000 per month in liquidated damages, payable in cash, if we don t file the registration statement for the convertible debenture and liquidated damages equal to the average closing price of 375,000 Class A warrants and 375,000 Class B warrants for each 30 day period, commencing May 13, 2008, and multiplying that average by 2% for each 30 day period that the registration statement is not declared effective.

Therefore, on April 24, 2008, we began to incur liquidated damage obligations in connection with the convertible debenture of $90,000 per month and as of May 13, 2008 we began to incur liquidated damage obligations in connection with the warrants according to the formula described above. The maximum amount of liquidated damages relative to the warrant registration statement and the convertible debenture is equal to 10% of the face amount of the convertible debenture or $450,000 (10% of $4,500,000). We have accrued $180,000 for the obligation in the quarter ended March 31, 2008.

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Also in connection with this financing, we entered into a Security Agreement with the investors whereby we granted the investors a security interest in Converted Organics of California, LLC and any and all assets that are acquired by the use of funds from the financing. In addition, we granted the investors a security interest in Converted Organics of Woodbridge, LLC and all assets subordinate only to the current lien held by the holder of the bonds issued in connection with the Woodbridge facility of approximately $17,500,000.

In connection with our February 2007 initial public offering, we issued certain bridge lenders Class A and Class B warrants. High Capital Funding, LLC has recently indicated that we defaulted with respect to certain registration rights and consequently owe them liquidated and consequential damages. To date, no formal claims have been made by any of the bridge lenders, and if any claims are made, we believe we have adequate defenses. We do not agree with the position of High Capital Funding, LLC. Furthermore, we are not able to reasonably estimate the amount of any claims that may be brought in the future, if any.

Rhode Island Facility

We have acquired an option on a long-term lease for a facility in Rhode Island. Permits have not been issued nor has construction begun at the Rhode Island location. The option for the lease in Rhode Island expires on January 9, 2011 and we paid a fee of $20,000 to secure the option.

Construction and Start-up Period

We have commenced plant construction activities on our Woodbridge facility. Our process engineer, Weston Solutions, Inc., has completed the design, mass balance, energy balance, and process flow drawings for the Woodbridge facility. This work formed the basis for soliciting bids for a guaranteed maximum price contract for the construction of the Woodbridge facility. In addition, our management team has been focused primarily on constructing the Woodbridge facility, conducting start-up trials and bringing operations to full-scale production as quickly as practicable. We have 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 will come 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 New Jersey landlord.

As of March 31, 2008, we incurred approximately $7.6 million of the $14.6 million in planned construction costs. The total cost is not expected to significantly exceed the estimate of $14.6 million; however, we are currently exploring the opportunity of purchasing additional equipment, which would allow us to produce additional product which is in high demand by the retail market. The estimated cost of this additional equipment would be approximately $1.2 million and would be paid for out of working capital.

The remaining net proceeds of the stock and bond offerings of $10.8 million (net proceeds of $25.4 million less $14.6 million set aside for construction) is being used to fund our marketing and administrative expenses during the construction period, and fund principal and interest reserves specified in the bond offering. The additional costs for the build-out of the Woodbridge facility by the landlord are not included in these costs. We expect to either negotiate and execute a plant management agreement or to hire a qualified plant manager and the appropriate operating personnel prior to commencement of the Woodbridge facility s operations. We will continue to develop relationships and negotiate purchase agreements for our end products in the agribusiness, turf management, and retail markets during the construction and start-up period.

Full-scale Operations

Operations at the Woodbridge facility are expected to achieve the initial design capacity of 250 tons per day within four to six months following commencement of operations, which we believe will occur at the end of the second quarter of 2008. Upon commencement of operations, there will be two revenue streams: (1) tip fees that in our potential markets range from $50 to $100 per ton, and (2) product sales. Tip fees are paid to us to receive the organic waste stream from the waste hauler; the hauler pays us, instead of a landfill, to take the waste. If the haulers source separate and pay in advance, they will be charged tip fees that are up to 20% below market. Operations are expected to be stabilized at design capacity within four to six months of commencement.

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.

Future Development

Subject to the availability of development capital for which we have no current commitments, we intend to commence development and construction of other facilities while completing construction of our Woodbridge facility. The timing of our next facility is dependent on many factors, including locating property suited for our use, negotiating favorable terms for lease or purchase, obtaining regulatory approvals, and procuring raw material at favorable prices.

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We anticipate that our next facility will be located in Rhode Island. We have signed an option for a lease with the Rhode Island Resource Recovery Corporation for a proposed facility in Johnston, Rhode Island. Other locations in Massachusetts and New York as well as other states will be considered as determined by management.

In each contemplated market, we have started development activity to secure a facility location. We have also held preliminary discussions with state and local regulatory officials and raw material suppliers. We believe that this preliminary development work will allow us to develop and operate a third facility by the end of 2009, subject to the availability of debt financing for which we have no current commitments. We believe we will be able to use much of the engineering and design work done for our Woodbridge facility for subsequent facilities, thus reducing both the time and costs associated with these activities. We expect to form a separate wholly owned subsidiary for each facility to facilitate necessary bond financing and manage risk.

Trends and Uncertainties Affecting our Operations

We are subject to a number of factors that may affect our operations and financial performance. These factors include, but are not limited to:

- the available supply and price of organic food waste;

- the market for liquid concentrate and solid organic fertilizer;