

Converted Organics Inc.
Form S-1
February 06, 2008

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**As filed with the Securities and Exchange Commission on February 6, 2008
Securities Act File 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.

(Name of small business issuer 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
No.)**

**7A Commercial Wharf West
Boston, MA 02110
(617) 624-0111**

(Address and Telephone Number of Principal Executive Offices and Principal Place of Business)

**Edward J. Gildea
7A Commercial Wharf West
Boston, MA 02110
(617) 624-0111**

(Name, Address and Telephone Number of Agent for Service)

Copy to:

**Mark A. von Bergen
Jason H. Barker
Holland & Knight LLP
2300 US Bancorp Tower
111 SW Fifth Avenue
Portland, OR 97204
(503) 243-2300**

Approximate Date of Commencement of Proposed Sale to Public: As soon as practicable
after this registration statement becomes effective.

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.

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.

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.

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.

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

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	Amount of Registration Fee(2)
Common stock, \$0.0001 par value	421,307	\$5.50	\$2,317,188.50	\$91.07
Redeemable Class A warrant to purchase one share of common stock (3)	293,629			
Non-redeemable Class B warrant to purchase one share of common stock (3)	293,629			
Common stock issuable upon exercise of Class A warrants (3)	356,911	\$9.00	\$3,212,199.00	\$126.24
Common stock issuable upon exercise of Class B warrants (3)	356,911	\$12.00	\$4,282,932.00	\$168.32
Total				\$385.62

(1) Estimated solely for purposes of calculating the amount of the registration fee paid pursuant to Rule 457(g) under the Securities Act.

(2) The filing fee is calculated based on the filing fee of \$39.30 per million in the maximum aggregate offering price.

- (3) Pursuant to Rule 416 under the Securities Act, there are also being registered hereby such additional indeterminate number of securities as may become issuable pursuant to the anti-dilution provisions of the public 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, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We have filed a registration statement with the Securities and Exchange Commission relating to this offering. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED FEBRUARY 6, 2008

PROSPECTUS

1,135,192 Shares of Common Stock

293,629 Class A Warrants

293,629 Class B Warrants

This prospectus relates to the offer and resale by certain of our stockholders and warrant holders, referred to as Selling Securityholders, of up to 293,629 redeemable Class A warrants, 293,629 non-redeemable Class B warrants, and 1,135,192 shares of our common stock that they own or that they may acquire pursuant to the exercise of warrants. We will not receive any proceeds from the sale of these securities. We are registering these securities for resale by the Selling Securityholders, but that does not necessarily mean that they will sell any of the securities.

Holders of the Class A warrants and Class B warrants may purchase one share of common stock for each warrant exercised. 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.

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 February 5, 2008 was \$9.78, \$3.75 and \$4.10, 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 February , 2008.

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

Our Company

Converted Organics is a development stage company seeking to use organic food waste as raw material to manufacture all-natural soil amendment products combining both nutritional and disease suppression characteristics. We plan to sell and distribute our products in the agribusiness, turf management, and retail markets. Our proposed process, which has been demonstrated in a pilot manufacturing facility, uses heat and bacteria to transform food waste into a natural fertilizer.

A substantial portion of the \$8.9 million net proceeds of the initial public offering of our equity securities, which closed on February 16, 2007, together with the net proceeds of an approximately \$17.5 million bond issue of the New Jersey Economic Development Authority (the New Jersey EDA Bond) that closed simultaneously with the closing of the initial public offering, are being used to develop and construct an organic waste conversion facility in Woodbridge, New Jersey. We expect this facility to become operational during the second quarter of 2008.

Our revenue will come from two sources: tip fees and product sales. Waste haulers will pay us tip fees 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 will also come from the customers who purchase our products. Our planned products will possess a combination of nutritional, disease suppression and soil amendment characteristics. The products will be 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 the plant. 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 our products will have substantial demand 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.

Our initial facility will collect 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. The facility is within a special recycling zone and has been approved for inclusion in the Middlesex County New Jersey Solid Waste Management Plan. When fully operational, the Woodbridge facility is expected to process approximately 78,000 tons of organic food waste, which will be diverted from landfills, and produce approximately 7,500 tons of dry product and 6,700 tons of liquid concentrate annually. We are in the process of negotiating options to lease property for additional facilities in Rhode Island, Massachusetts, and New York. Completion of these additional facilities will require additional capital.

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.convertedororganics.com. Information contained on our website or any other website does not constitute part of this prospectus.

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will never be exercisable when in-the-money or otherwise, and that warrant holders will never receive shares or payment of cash in settlement of the warrants. See Risk Factors for more detail.

The Class B warrants are not redeemable.

Common stock outstanding
after this offering

4,229,898 shares

Use of proceeds

None of the proceeds from the sale of the securities by the Selling Securityholders will be received by us.

Nasdaq Capital Market and
Boston Stock Exchange
symbols

Common stock: COIN
Class A warrants: COINW
Class B warrants: COINZ

Risk factors

Investing in these securities involves a high degree of risk. 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.

We have 4,229,898 shares of common stock issued and outstanding as of December 31, 2007. Unless the context indicates otherwise, all share and per-share common stock information in this prospectus:
assumes no exercise of the Class A and Class B warrants;

assumes no exercise of the representative s warrants issued in our initial public offering.

assumes issuance of stock dividends pursuant to our stock dividend program through December 31, 2007; and

excludes 666,667 shares reserved under our 2006 Stock Option Plan.

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RISK FACTORS

An investment in our securities involves a high degree of risk and many uncertainties. You should carefully consider the specific factors described below together with the cautionary statement that follows this section and the other information included in this prospectus. If one or more of the possibilities described as risks below actually occurs, our operating results and financial condition would likely suffer and the trading price of our securities could fall, causing you to lose some or all of your investment in our securities. Also, you should be aware that the risks described below are not the only ones facing us. Additional risks that we do not yet know of, or that we currently think are immaterial, may also impair our business operations.

Risks Relating to Our Business

We are an early-stage venture with no operating history, and our prospects are difficult to evaluate.

We have not operated any facility, nor have we sold any products. Our activities to date 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 until we commence operations and perhaps for some time thereafter, and we may never operate profitably.

For the period from May 2, 2003 (inception of our predecessor companies) through September 30, 2007, we incurred an accumulated net loss of approximately \$9,300,000. We will continue to incur significant losses, and assuming we successfully complete construction of our proposed Woodbridge, New Jersey facility and have become fully operational in early 2008, we expect to achieve profitability in early 2009. There is no assurance that we will be successful in our efforts to build and operate an organic waste conversion facility, or enter into agreements with waste haulers to receive tip fees for the organic food waste we use as our raw material, or customers to purchase our soil amendment products. Even if we successfully meet our objectives and begin operations at the Woodbridge facility, there is no assurance that we will be able to operate profitably.

Limited liquidity and capital resources.

As of September 30, 2007, we had approximately \$465,000 of indebtedness (excluding the \$17,500,000 New Jersey EDA Bond), \$375,000 of which matures on December 31, 2008. We believe that we have sufficient capital resources to complete the construction of the Woodbridge, NJ facility; however, we anticipate needing additional funds to finance working capital of the Company in early 2008. The source of additional funds may be (a) new debt and equity financing, (b) release of approximately \$1,000,000 of funds held at our subsidiary upon completion of the construction of the Woodbridge, NJ facility, or (c) drawings under \$1,825,000 letter of credit (see Liquidity and Capital Resources). There are no assurances that the Company will be able to obtain such additional financing, and (a) the occurrence of additional debt is subject to the consent of the holder of the New Jersey EDA Bond, and (b) the terms of the letter of credit may limit the amount of drawings based upon the stock price of the Company at the time of borrowing under the letter of credit.

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, and securing a lease for our first facility and options for additional facilities. The transition to a converter of waste and manufacturer and vendor of fertilizer products will require effective planning and management. Our management does not have extensive experience in operating a manufacturing facility. 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.

If we fail to finalize important agreements or the final agreements are unfavorable compared with what we currently anticipate, the development of our business may be harmed in ways which may have a material negative effect on our financial performance.

This document refers to agreements and documents that are not yet final, permits that have not yet been obtained, and plans that have not yet been implemented. The definitive versions of those agreements, permits, plans or proposals may not materialize or, if they do materialize, may not prove profitable to the Company, which may have a material negative effect on our financial performance.

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 manufacturing facility may take longer and cost more than we expect.

Equipping and completing our initial facility will 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 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 facilities, and our results may be materially affected.

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,

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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 organic waste conversion 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 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 (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 operations and revenues.

The technology we will use to operate our facilities 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, 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 manufacturing 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 our products in commercial quantities or sell them at competitive prices.

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To date, we have not produced any products. We may not be able to manufacture the planned products 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.

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

Our 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

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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, likely 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 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.

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 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.

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

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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 meet our projections, deadlines and goals 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 the Company as manager of Converted Organics of Woodbridge LLC., in connection with the issuance of the New Jersey EDA Bond, prohibit the Company from paying debt and other obligations that funded the company's working capital until certain ratios of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) to debt service are met. As of September 30, 2007, the Company had approximately \$375,000 and \$90,000 of indebtedness, other than the New Jersey EDA Bond, 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.

The New Jersey EDA Bond is subject to mandatory redemption by us if the Woodbridge facility is condemned, we cease to operate the facility, the New Jersey EDA Bond becomes 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 bondholder ranging between 100% and 110% of the principal amount of the New Jersey EDA Bond, 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 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.

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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.

Risks Related to Investment in Our Securities

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

As a public company, we will be subject to numerous legal and accounting requirements that do not apply to private companies. 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.

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

We may redeem the Class A warrants for \$0.25 per warrant (subject to adjustment in the event of a stock split, dividend or the like) on 30 days notice at any time after (i) August 8, 2007 and (ii) 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

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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.

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, the Company and 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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FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. In some cases, you may identify forward-looking statements by words such as may, should, plan, intend, potential, continue, believe, expect, predict, estimate, the negative of these words or other comparable words. These statements are only predictions. You should not place undue reliance on these forward-looking statements. The forward-looking statements are qualified by their terms and/or important factors, many of which are outside our control, involve a number of risks, uncertainties and other factors that could cause actual results and events to differ materially from the statements made. The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, including those events and factors described in Risk Factors, not all of which are known to us. Neither we nor any other person assumes responsibility for the accuracy or completeness of these statements. We will update this prospectus only to the extent required under applicable securities laws. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements.

Table of Contents**USE OF PROCEEDS**

We will not receive any proceeds upon the sale of any of the securities registered on behalf of the Selling Securityholders.

Should the Class A and Class B warrants that are components of the units issued in connection with the Bridge Units be exercised, we will receive total additional proceeds of approximately \$5,652,358. If received, we expect to use these proceeds to fund working capital and general corporate expenses.

SELLING SECURITYHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of our securities by each Selling Securityholder as of December 31, 2007, and is adjusted to reflect the sale of all the securities offered by the Selling Securityholders. The following table assumes that all of the securities registered pursuant to this prospectus will be sold although the selling security holders are under no obligations known to us to sell any of the securities at this time.

Selling Securityholder	Securities Beneficially Owned Prior to the Offering and Offered Hereby				Securities Beneficially Owned After the Offering			
	Common Stock	Class A Warrant	Class B Warrant	Common Stock Underlying Warrants	Common Stock		Common Stock Underlying Warrants	
					Class A Warrant	Class B Warrant		
HIGH CAPITAL FUNDING, LLC	22,099	18,181	18,181	44,198	0	0	0	0
LEA ADAR	4,419	3,636	3,636	8,840	0	0	0	0
ATTAR FAMILY LTD	9,282	7,636	7,636	18,564	0	0	0	0
LESLIE BARDT	1,105	909	909	2,210	0	0	0	0
RICHARD BASSIN	8,841	7,273	7,273	17,680	0	0	0	0
MARC & ELLEN BECKER TENANTS IN COMMON	3,314	2,727	2,727	6,630	0	0	0	0
RONALD J. BERK HARRIET STONE	11,050	9,091	9,091	22,100	0	0	0	0
BERKOWITZ MORRELL	1,105	909	909	2,210	0	0	0	0
BERKOWITZ JAMES & CAROLE BOS	1,105	909	909	2,210	0	0	0	0
FRED A. BRASCH DIANA	3,314	2,727	2,727	6,630	0	0	0	0
BUDZANOSKI	2,209	1,818	1,818	4,420	0	0	0	0
BUSHROD BURNS HOWARD	2,209	1,818	1,818	4,420	0	0	0	0
COMMANDER SCOTT	11,050	9,091	9,091	22,100	0	0	0	0
COMMANDER BARBARA H. & PETER R. DUCOFFE	2,209	1,818	1,818	4,420	0	0	0	0
HERBERT W. EBER	5,525	4,545	4,545	11,048	0	0	0	0
	1,105	909	909	2,210	0	0	0	0

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KENNETH & JOCELIN ELAN NEILA & LAWRENCE B. FISHER	3,314	2,727	2,727	6,630	0	0	0	0
J. DAVID FORSYTH	3,757	3,091	3,091	7,514	0	0	0	0
JACK FRANCO	2,209	1,818	1,818	4,420	0	0	0	0
SCOTT GARBER	2,209	1,818	1,818	4,420	0	0	0	0
STEPHEN W. GARBER	11,050	9,091	9,091	22,100	0	0	0	0
SONIA GLUCKMAN	5,525	4,545	4,545	11,048	0	0	0	0
STEPHEN M. GREENBERG	1,105	909	909	2,210	0	0	0	0
DAVID R. GROSS	3,757	3,091	3,091	7,514	0	0	0	0
CHRISTEN HART	1,105	909	909	2,210	0	0	0	0
ELLIS T. & REVA A. HART	1,105	909	909	2,210	0	0	0	0
HART FAMILY REVOCABLE TRUST	1,105	909	909	2,210	0	0	0	0
THE HART ORGANIZATION CORP.								

Benefit payments

Benefits are recorded when paid.

Alliance Data Systems 401(k) and Retirement Savings Plan
Notes to Financial Statements
December 31, 2012 and 2011

2. Summary of accounting policies (continued)

New accounting pronouncements

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S GAAP and IFRSs, (“ASU 2011-04”). ASU 2011-04 amended Accounting Standards Codification (“ASC”) 820, Fair Value Measurement, to converge the fair value measurement guidance in GAAP and International Financial Reporting Standards (“IFRS”). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional disclosures as defined in ASC 820. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. Adoption of ASU 2011-04 did not have an effect on the Plan’s net assets available for benefits or its changes in net assets available for benefits.

Notes receivable from participants

Notes receivable from participants represent participant loans that are recorded at their unpaid principal balance plus any accrued but unpaid interest. Interest income on notes receivable from participants is recorded when it is earned. Related fees are recorded as administrative expenses and are expensed when they are incurred. An allowance for defaulted loans of \$74,300 and \$106,685 has been recorded for December 31, 2012 and 2011, respectively, with the change recorded under distributions.

Investment valuation and income recognition

Investments held by the Plan are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). See Note 3 for further discussion and disclosures related to fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis using fair market value, except for those investments in investment contracts, which are transacted at contract value. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis.

The Wells Fargo Stable Return Fund and the Charles Schwab Stable Value Fund invests in fully benefit-responsive investment contracts. These funds are recorded at fair value (see Note 3); however, since these contracts are fully benefit-responsive, an adjustment is reflected in the statements of net assets available for benefits to present these investments at contract value. Contract value is the relevant measurement attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. Contract value represents contributions plus earnings, less participant withdrawals and administrative expenses.

Alliance Data Systems 401(k) and Retirement Savings Plan
Notes to Financial Statements
December 31, 2012 and 2011

2. Summary of accounting policies (continued)

Reclassifications

Certain reclassifications have been made to the 2011 financial statements and footnotes to conform to 2012 presentation.

3. Fair value measurements

ASC 820 establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include

- quoted prices for similar assets and liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; or

• inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the techniques and inputs used for each major class of assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011.

Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded and are classified within Level 1 of the valuation hierarchy.

Alliance Data Systems 401(k) and Retirement Savings Plan
Notes to Financial Statements
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3. Fair value measurements (continued)

Mutual funds: Valued at the Net Asset Value (“NAV”) of shares held at the closing price reported in an active market on which the funds are traded and are classified within Level 1 of the valuation hierarchy.

Stable value common collective trust: Valued at the respective NAV as reported by such trust, which are reported at fair value. The value of each unit is determined by subtracting total liabilities from the total value of the assets, including accrued income, and dividing the amount remaining by the number of units outstanding on the valuation date. The investment seeks to maintain principle value, protect against market price volatility, obtain consistent income return, and provide liquidity for benefit payments and withdrawals. The stable value invests primarily in investment contracts issued by insurance companies, banks and other financial institutions. The Plan does not have any contractual obligations to further invest in this fund. See Note 5 “Restrictions” below. The NAV is a quoted price in a market that is not active and classified within Level 2 of the valuation hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Alliance Data Systems 401(k) and Retirement Savings Plan
Notes to Financial Statements
December 31, 2012 and 2011

3. Fair value measurements (continued)

The following tables set forth by level, within the fair value hierarchy, the Plan's investment assets at fair value as of December 31, 2012 and 2011:

	Assets at fair value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Target dated	\$ 252,297,839	\$ -	\$ -	\$ 252,297,839
Intermediate term	12,455,978	-	-	12,455,978
bond				
Large blend	11,137,430	-	-	11,137,430
Large value	9,024,898	-	-	9,024,898
Foreign large blend	6,816,755	-	-	6,816,755
Large growth	5,300,890	-	-	5,300,890
Small value	4,369,534	-	-	4,369,534
Mid-cap growth	2,205,534	-	-	2,205,534
Total mutual funds	303,608,858	-	-	303,608,858
Common stocks				
Finance	21,686,351	-	-	21,686,351
Common collective trust				
Stable value	-	10,618,284	-	10,618,284
Self-managed brokerage				
Common stocks	2,681,877	-	-	2,681,877
Common stocks	469,999	-	-	469,999
foreign				
Mutual funds	2,365,724	-	-	2,365,724
Interest bearing	1,241,965	-	-	1,241,965
cash				
Total	\$ 332,054,774	\$ 10,618,284	\$ -	\$ 342,673,058

Alliance Data Systems 401(k) and Retirement Savings Plan
Notes to Financial Statements
December 31, 2012 and 2011

3. Fair value measurements (continued)

	Assets at fair value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Large value	\$ 48,766,417	\$ -	\$ -	\$ 48,766,417
Intermediate term	45,063,280	-	-	45,063,280
bond				
Large growth	39,529,207	-	-	39,529,207
Foreign large	39,374,514	-	-	39,374,514
blend				
Large blend	17,843,665	-	-	17,843,665
Small value	16,699,326	-	-	16,699,326
Small growth	9,412,146	-	-	9,412,146
Other	271	-	-	271
Total mutual funds	216,688,826	-	-	216,688,826
Common stocks				
Finance	14,689,414	-	-	14,689,414
Common collective trust				
Stable value	-	46,234,110	-	46,234,110
Self-managed brokerage				
Common stocks	2,374,429	-	-	2,374,429
Common stocks	299,220	-	-	299,220
foreign				
Mutual funds	2,792,938	-	-	2,792,938
Other	-	15,241	-	15,241
Total	\$ 236,844,827	\$ 46,249,351	\$ -	\$ 283,094,178*

* Excludes cash and certificates of deposit of \$8,000 held under the self-directed brokerage accounts which are not subject to ASC 820

Alliance Data Systems 401(k) and Retirement Savings Plan
Notes to Financial Statements
December 31, 2012 and 2011

4. Investments

Wells Fargo Bank, N.A., as trustee of the Plan, holds the Plan's investments. Prior to May 1, 2012, Charles Schwab Trust Company was the trustee.

The following table presents balances for 2012 and 2011 for the Plan's current investments. Investments that represent five percent or more of the Plan's net assets and Employer Securities are separately identified.

	2012	2011
Investments at fair value as determine by:		
Quoted Market price		
Common stock		
Alliance Data Systems Corporation	\$ 21,686,351	\$ 14,689,414
Other	3,151,876	2,662,379
Shares of registered investment companies		
Vanguard Target Retirement 2035 Fund	52,242,367	- *
Vanguard Target Retirement 2030 Fund	51,588,649	- *
Vanguard Target Retirement 2025 Fund	41,906,592	- *
Vanguard Target Retirement 2040 Fund	34,063,813	- *
Vanguard Target Retirement 2020 Fund	25,773,219	- *
Pimco Total Return Fund	12,455,978 *	45,063,280
Vanguard Institutional Index Fund	11,137,430 *	17,843,665
Dodge & Cox Stock Fund	9,024,898 *	48,766,417
American Funds EuroPacific Growth Fund	6,816,755 *	39,374,514
John Hancock III Rainer Growth	5,300,890 *	39,529,207
Columbia Small Cap Value Fund	4,369,534 *	16,699,326
Other	52,536,422	12,216,625
	332,054,774	236,844,827
Estimated fair value		
Units in common collective trust		
Charles Schwab Stable Value Fund	- *	46,234,110
Wells Fargo Stable Return Fund	10,618,284	-
Other investments	-	23,241
	10,618,284	46,257,351
	\$ 342,673,058	\$ 283,102,178

* Shown for comparative purposes only.

Alliance Data Systems 401(k) and Retirement Savings Plan
Notes to Financial Statements
December 31, 2012 and 2011

4. Investments (continued)

During 2012 and 2011, the Plan's investments (including investments bought, sold, and held during each year) appreciated (depreciated) as follows:

	2012	2011
Shares of registered investment companies	\$ 30,111,709	\$ (11,303,553)
Common stock	6,416,904	4,174,566
Common collective trust	404,048	1,761,353
Net appreciation (depreciation)	\$ 36,932,661	\$ (5,367,634)

5. Restrictions

The declaration of trust for the Charles Schwab Stable Value Fund (the "Fund") contained certain restrictions and was liquidated on April 30, 2012 without any restrictions imposed.

The declaration of trust for the Wells Fargo Stable Return Fund contains a restriction that the trustee of the fund may impose, in its sole discretion a prior notice period of up to 12 months for any Employer initiated withdrawal of assets from the fund. At December 31, 2012, no prior period notice has been imposed.

6. Tax status

The Plan obtained its latest determination letter on January 6, 2010, in which the Internal Revenue Service ("IRS") stated that the Plan was designed in accordance with the applicable requirements of the Code. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. Although the Plan has been amended since the version that the determination letter applies to, the Plan administration believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Code.

GAAP requires management responsible for the Plan to evaluate uncertain tax positions. The financial statement effect of a tax position is recognized when the position is more likely than not, based on the financial merits, to be sustained upon examination by the IRS. The Plan's administrator has analyzed the tax positions, and has concluded that as of December 31, 2012, there are no uncertain tax positions taken or expected to be taken. The Plan has recognized no interest or penalties related to uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan's administrator believes it is no longer subject to income tax examination for years prior to 2009.

Alliance Data Systems 401(k) and Retirement Savings Plan
 Notes to Financial Statements
 December 31, 2012 and 2011

7. Plan administration

A committee comprised of members appointed by the board of directors of the Employer administers the Plan.

8. Plan termination

Although the Employer has not expressed any intent to do so, the Employer has the right under the Plan to discontinue its contributions at any time. The Employer has the right at any time, by action of its board of directors, to terminate the Plan subject to provisions of ERISA. Upon Plan termination or partial termination, participants will become fully vested in their accounts.

9. Party-in-interest

As of December 31, 2012 and 2011, the Plan's investment portfolio includes an investment in the common stock of Alliance Data Systems Corporation, a party-in-interest to the Plan.

Wells Fargo Bank, N.A., trustee of the Plan, and Charles Schwab Trust Company, former trustee of the Plan, their subsidiaries and affiliates maintain and manage certain of the investments of the Plan, for which the Plan is charged investment expenses.

10. Reconciliation of financial statements to Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to Form 5500:

	2012	2011
Net assets available for benefits per the financial statements	\$ 359,861,211	\$ 297,603,117
Amounts allocated to withdrawing participants	(74,811)	(148,275)
Adjustments from fair value to contract value	299,310	319,040
Net assets available for benefits per Form 5500	\$ 360,085,710	\$ 297,773,882

Alliance Data Systems 401(k) and Retirement Savings Plan
 Notes to Financial Statements
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10. Reconciliation of financial statements to Form 5500 (continued)

The following is a reconciliation of benefit payments per the financial statements to Form 5500:

	2012
Benefit payments per the financial statements	\$ 38,976,911
Amount allocated to withdrawing participants	
At December 31, 2012	74,811
At December 31, 2011	(148,275)
Reserves for defaulted loans	
At December 31, 2012	(74,300)
At December 31, 2011	106,685
Corrective distributions	(23,587)
Benefit payments per Form 5500	\$ 38,912,245

The following is a reconciliation of the net increase in net assets available for benefits per the financial statement to Form 5500:

	2012
Net increase in net assets per the financial statements	\$ 62,258,094
Change in amounts allocated to withdrawing participants	73,464
Change in adjustment from fair value to contract value	(19,730)
Net income per Form 5500	\$ 62,311,828

11. Subsequent events

Effective January 1, 2013, the Plan was amended and restated, to among other things, lower the eligibility age from 21 to 18.

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Alliance Data Systems 401(k) and Retirement Savings Plan

EIN #13-3163498 Plan #001

Schedule H, Line 4i

Schedule of Assets (Held at End of Year)

December 31, 2012

(a)	(b)	(c)	(d) (1)	(e)
Identity of issuer, borrower, lessor, or similar party		Description of investment including maturity date, rate of interest, collateral, par or maturity value	Cost	Current Value
* Alliance Data Systems Corporation		Common stock – 149,809 shares		\$ 21,686,351
* Wells Fargo Stable Return Fund		Common collective trust – 922,896 units		10,618,284
Vanguard Target Retirement 2035 Fund		Mutual fund – 3,707,762 shares		52,242,367
Vanguard Target Retirement 2030 Fund		Mutual fund – 2,206,529 shares		51,588,649
Vanguard Target Retirement 2025 Fund		Mutual fund – 3,083,634 shares		41,906,592
Vanguard Target Retirement 2040 Fund		Mutual fund – 1,469,535 shares		34,063,813
Vanguard Target Retirement 2020 Fund		Mutual fund – 1,081,545 shares		25,773,219
Vanguard Target Retirement 2045 Fund		Mutual fund – 1,183,759 shares		17,223,696
Pimco Total Return Fund		Mutual fund – 1,108,183 shares		12,455,978
Vanguard Institutional Index Fund		Mutual fund – 85,331 shares		11,137,430
Vanguard Target Retirement 2015 Fund		Mutual fund – 788,511 shares		10,550,278
Dodge & Cox Stock Fund		Mutual fund – 74,035 shares		9,024,898
Vanguard Target Retirement 2010 Fund		Mutual fund – 334,936 shares		8,082,003
American Funds EuroPacific Growth Fund		Mutual fund – 165,375 shares		6,816,755
Vanguard Target Retirement 2050 Fund		Mutual fund – 289,265 shares		6,679,119
John Hancock III Rainer Growth Fund		Mutual fund – 230,173 shares		5,300,890
Columbia Small Cap Value Fund		Mutual fund – 294,443 shares		4,369,534
Vanguard Target Retirement Fund		Mutual fund – 254,237 shares		3,099,153
Touchstone Emerging Growth Fund		Mutual fund – 189,479 shares		2,205,534
Vanguard Target Retirement 2055 Fund		Mutual fund – 38,376 shares		951,719
Vanguard Target Retirement 2060 Fund		Mutual fund – 6,292 shares		137,231
Self Directed Brokerage Accounts				6,759,565
* Participant Loans		4.10% - 9.50%	-	6,265,829

* Represents a party-in-interest

(1) Cost information omitted – investment is part of individual account plan that a participant or beneficiary directed with respect to assets allocated to his or her account.

The notes to the financial statements are an integral part of this schedule.

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on their behalf by the undersigned hereunto duly authorized.

ALLIANCE DATA SYSTEMS 401(k) AND RETIREMENT
SAVINGS PLAN

Date: June 27, 2013

By:

/s/ Calvin Hilton

Calvin Hilton

Vice President, Human Resources

INDEX TO EXHIBITS

Exhibit No.	Description
* 23.01	Consent of Independent Registered Public Accounting Firm

* filed herewith
