

# CONVERTED ORGANICS INC.

## FORM 8-K

(Current report filing)

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Address	7A COMMERCIAL WHARF WEST BOSTON, MA 02110
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported):

March 6, 2009

CONVERTED ORGANICS INC.

(Exact name of registrant as specified in its charter)

Delaware

001-33304

204075963

(State or other jurisdiction  
of incorporation)

(Commission  
File Number)

(I.R.S. Employer  
Identification No.)

7A COMMERCIAL WHARF WEST,  
BOSTON, Massachusetts

02110

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

617-624-0111

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 1.01 Entry into a Material Definitive Agreement.**

On March 6, 2009, Converted Organics Inc. (the "Company") entered into an agreement (the "agreement") with Professional Offshore Opportunity Fund, Ltd. (the "investor") under which, upon stockholder approval (as discussed below), it will issue a series of 10% convertible notes in an aggregate principal amount of up to \$1,500,000 with a 10% original issue discount. The investor placed funds into escrow on March 10, 2009 to acquire \$500,000 in principal amount of the convertible notes to be released upon receiving stockholder approval, and will acquire four additional \$250,000 increments in principal amount of the note with the first increment occurring on the 30th day after receiving stockholder approval, and the remaining three increments monthly thereafter.

The convertible note will be convertible at an initial rate of 85% of the closing bid price of the Company's common stock for the trading day immediately preceding any conversion (the "Conversion Price"); provided that if the Company issues securities in an equity financing transaction at a lower price than the Conversion Price, the Conversion Price will be reduced to such lower price; provided further that if the Company defaults on the note, the Conversion Price will be the lowest of the above prices or 70% of the average of the three lowest market prices of the Company's common stock during the 20-day trading period immediately prior to any conversion.

The series of convertible notes all, collectively, mature one year from the date the first \$500,000 increment of funding is released to the Company after the initial approval of this agreement by the Company's stockholders. During the period leading up to the maturity date, the 10% interest payable on the series of convertible notes will become owed in its entirety on the day of funding (assuming each convertible note was outstanding for a period of one year) and added to the principal amount of the convertible note. If an event of default has occurred, all the convertible notes then outstanding will automatically become immediately due and payable, and the interest rate will increase to 18% per annum during the pendency of the event of default. The events that could cause the Company to incur an event of default are set forth in the convertible note, which is filed as an exhibit to this Form 8-K.

As additional consideration for the financing, the Company will issue the investor an aggregate of 1,713,307 Class B warrants in pro rata increments upon the issuance of each increment of the convertible notes. The Class B warrants are exercisable at \$11.00 per warrant share.

In accordance with NASDAQ's marketplace rules, the Company is required to obtain stockholder approval for the issuance of the shares of common stock issuable upon conversion of the convertible notes. Pursuant to the agreement, the Company is required to obtain stockholder approval for the issuances on or before the later of (a) May 15, 2010 or (b) 45 calendar days after the filing of the definitive proxy statement, if the Securities and Exchange Commission ("Commission") reviews the Company's preliminary proxy statement, which must be filed by March 16, 2009.

Pursuant to a registration rights agreement, the Company agreed to provide the investor with registration rights for the Class B warrants and the common stock underlying the convertible note and Class B warrants (the "registrable securities"). If the Company is successful in obtaining stockholder approval of the transaction, within 10 days of receiving such approval the Company is required to file a registration statement covering the resale of the registrable securities. If the registration statement required to be filed is not timely filed, then the Company is required to pay the investor the sum of 2% of the face amount of the convertible notes and 2% of the Class B warrant market value as liquidated damages, and not as a penalty, for each 30 calendar day period, on a pro rata basis, until the registration statement is filed. The registration rights agreement requires the registration statement be declared effective by the Commission on or prior to 90 days after the filing date. If the registration statement is not declared effective within 90 days following the filing date, then the Company is required to pay the investor the sum of 2% of the face amount of the convertible note and 2% of the Class B warrant market value, as liquidated damages and not as a penalty, for each 30 calendar day period, on a pro rata basis, following the 90 calendar day period after the filing date, until the registration statement is declared effective, and 2% for each successive 30 calendar day period thereafter.

On March 6, 2009, the Company entered into a second amendment to the secured convertible debenture dated January 24, 2008, as previously amended on January 29, 2009, held by the investor and one of its affiliates. The January 29, 2009 amendment had provided that the debenture holder would not sell shares of Company common stock on any trading day in an amount greater than 15% of the daily volume of the Company's common stock for such trading day as reported by the NASDAQ stock market; provided that such limitation shall not apply at any time at which the Company's common stock is trading at above \$3.25 per share. In the second amendment, the Company agreed to waive the foregoing restrictions upon the funding by the investor of \$500,000 into escrow as discussed above, which has occurred.

On March 6, 2009, the Company entered into an agreement with the holders of its \$17.5 million of New Jersey Economic Development Authority Bonds to release \$2.0 million for capital expenditures on its New Jersey facility and to defer interest payments on the bonds thru July 30, 2009. These funds had been held in a reserve for bond principal and interest payments along with a reserve for lease payments. As consideration for the release of the reserve funds, the Company issued the bond holders 2,284,409 Class B warrants. The Class B warrants are exercisable at \$11.00 per warrant share.

The foregoing description of the agreement, registration rights agreement, and convertible note is qualified in its entirety by the text of the agreements which are exhibits to this Form 8-K.

**Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.**

The information included in Item 1.01 of this Current Report is incorporated by reference into this Item 2.03.

**Item 3.02 Unregistered Sales of Equity Securities.**

The information included in Item 1.01 of this Current Report is incorporated by reference into this Item 3.02.

The securities issued and to be issued pursuant to the transactions discussed in Item 1.01 above were not registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon the exemption from the registration requirements as provided in Section 4(2) of the Securities Act, as each of the entities receiving the securities were accredited investors as defined in the Securities Act. Chardan Capital Markets, LLC acted as the sole placement agent for the transaction, and will receive total compensation of \$205,000, of which \$115,000 is currently payable and \$90,000 is to be paid if the Company receives shareholder approval, and 120,000 Class B Warrants.

**Item 9.01 Financial Statements and Exhibits.**

(c) Exhibits

10.1 Purchase Agreement dated March 6, 2009 by and among Converted Organics Inc. and Professional Offshore Opportunity Fund, Ltd.

10.2 Convertible Note dated March 6, 2009 by Converted Organics Inc. payable to Professional Offshore Opportunity Fund, Ltd.

10.3 Registration Rights Agreement dated March 6, 2009 by and among Converted Organics Inc. and Professional Offshore Opportunity Fund, Ltd.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

*March 12, 2009*

CONVERTED ORGANICS INC.

*By: /s/ Edward J. Gildea*

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*Name: Edward J. Gildea  
Title: President and CEO*

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Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
10.1	Purchase Agreement dated March 6, 2009 by and among Converted Organics Inc. and Professional Offshore Opportunity Fund, Ltd.
10.2	Convertible Note dated March 6, 2009 by Converted Organics Inc. payable to Professional Offshore Opportunity Fund, Ltd.
10.3	Registration Rights Agreement dated March 6, 2009 by and among Converted Organics Inc. and Professional Offshore Opportunity Fund, Ltd.

**PURCHASE AGREEMENT**

THIS PURCHASE AGREEMENT (“Agreement”) is made as of the 6<sup>th</sup> day of March, 2009 by and among Converted Organics, Inc., a Delaware corporation (the “Company”), and Professional Offshore Opportunity Fund, Ltd. (the “Investor”).

**Recitals**

A. The Company and the Investor are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the provisions of Regulation D (“Regulation D”), as promulgated by the U.S. Securities and Exchange Commission (the “Commission”) under the Securities Act of 1933, as amended;

B. The Investor wishes to purchase from the Company, and the Company wishes to sell and issue to the Investor, upon the terms and conditions set forth in this Agreement, (i) up to \$1,500,000 in aggregate principal amount of the 10% Convertible Notes in the form attached hereto as Exhibit A (the “Notes”), which Notes are convertible into shares of the Company’s Common Stock, par value \$0.0001 per share (together with any securities into which such shares may be reclassified, the “Common Stock”), at an initial conversion price of 85% of the closing bid price for the Trading Day immediately prior to a conversion (subject to adjustment as provided therein), and (ii) Class B Warrants (NASD: COINZ) to purchase an aggregate number of shares of Common Stock equal to the original principal amount of the Note (excluding any interest amounts to be added to such original principal amount) divided by the initial conversion price described above (the “Warrants”); and

In consideration of the mutual promises made herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions. In addition to those terms defined above and elsewhere in this Agreement, for the purposes of this Agreement, the following terms shall have the meanings set forth below:

“Affiliate” means, with respect to any Person, any other Person which directly or indirectly through one or more intermediaries Controls, is controlled by, or is under common control with, such Person.

“Business Day” means a day, other than a Saturday or Sunday, on which banks in New York City are open for the general transaction of business.

“Company’s Knowledge” means the actual knowledge of the executive officers (as defined in Rule 405 under the 1933 Act) of the Company.

“Control” (including the terms “controlling”, “controlled by” or “under common control with”) means the possession, direct or

indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“Conversion Shares” means the shares of Common Stock issuable upon conversion of the Notes.

“Escrow Agreement” has the meaning set forth in Section 2.3.

“Material Adverse Effect” means a material adverse effect on (i) the assets, liabilities, results of operations, condition (financial or otherwise) or business of the Company and its Subsidiaries taken as a whole as of December 31, 2008, or (ii) the ability of the Company to perform its obligations under the Transaction Documents in all material respects; provided, however, that none of the following shall be deemed to constitute a Material Adverse Effect or taken into account in determining whether there has been a Material Adverse Effect: (a) changes in GAAP or applicable laws; (b) the announcement of the execution of this Agreement or of the pendency or completion of the transactions contemplated hereby; (c) the effect of compliance by any of the parties with the terms of, or the taking of any action specifically required to be taken under, this Agreement; (d) changes in economic, financial, credit or securities markets, or political conditions generally, except to the extent such changes have a materially disproportionate effect on the Company and its Subsidiaries as compared to others engaged in the same businesses; (e) any act of terrorism or war (whether or not declared); (f) changes affecting generally the industries in which the Company and its Subsidiaries conduct business, except to the extent such changes have a materially disproportionate adverse effect on the Company and its Subsidiaries or as compared to others engaged in the same businesses; (g) the Company’s cash, short term assets, working capital, and liquidity position prior to the transactions contemplated hereby; (h) non-cash impairment charges recorded in accordance with GAAP; (i) the payment of outstanding indebtedness in accordance with its terms; or (j) the incurrence and payment of expenses and liabilities in the ordinary course of business.

“Nasdaq” has the meaning set forth in Section 4.13.

“Original Issue Discount” has the meaning set forth in Section 2.2.

“Person” means an individual, corporation, partnership, limited liability company, trust, business trust, association, joint stock company, joint venture, sole proprietorship, unincorporated organization, governmental authority or any other form of entity not specifically listed herein.

“Principal Trading Market” means the Trading Market on which the Common Stock is primarily listed on and quoted for trading, which, as of the date of this Agreement and each Closing Date, shall be the Nasdaq.

“Purchase Price” means up to One Million Five Hundred Thousand Dollars (\$1,500,000).

“Registration Statement” has the meaning set forth in the New Financing Registration Rights Agreement.

“SEC Filings” has the meaning set forth in Section 4.6.

“Securities” means the Notes, the Warrants, the Conversion Shares and the Warrant Shares.

“Stockholder Approval” has the meaning set forth in Section 7.7.

“Subsidiary” of any Person means another Person, an amount of the voting securities, other voting ownership or voting partnership

interests of which is sufficient to elect at least a majority of its Board of Directors or other governing body (or, if there are no such voting interests, 50% or more of the equity interests of which) is owned directly or indirectly by such first Person.

“Trading Day” means (i) a day on which the Common Stock is listed or quoted and traded on its Principal Trading Market, or (ii) if the Common Stock is not listed on a Trading Market (other than the OTC Bulletin Board), a day on which the Common Stock is traded in the over-the-counter market, as reported by the OTC Bulletin Board, or (iii) if the Common Stock is not quoted on any Trading Market, a day on which the Common Stock is quoted in the over-the-counter market as reported in the “pink sheets” by Pink Sheets LLC (or any similar organization or agency succeeding to its functions of reporting prices); *provided*, that in the event that the Common Stock is not listed or quoted as set forth in (i), (ii) and (iii) hereof, then Trading Day shall mean a Business Day.

“Trading Market” means whichever of the Nasdaq Global Select Market, the Nasdaq Global Market, the Nasdaq Capital Market or the OTC Bulletin Board on which the Common Stock is listed or quoted for trading on the date in question.

“Transaction Documents” means this Agreement, the Notes, the Warrants, the Escrow Agreement and the Registration Rights Agreement.

“Warrant Shares” means the shares of Common Stock issuable upon the exercise of the Warrants.

“1933 Act” means the Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“1934 Act” means the Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

## 2. Purchase and Sale of the Notes and the Warrants .

2.1 Sale of Notes . Subject to the terms and conditions of this Agreement, on each Closing Date, the Company shall, in exchange for the Purchase Price as specified in Section 3 below, sell and issue, and the following parties shall severally, and not jointly, purchase: (a) on the First Closing Date, the aggregate principal amount of Five Hundred Thousand Dollars (\$500,000) of Notes and the Warrants to purchase five hundred seventy one thousand one hundred and two (571,102) shares of Common Stock to the Investor, (b) on the Second Closing Date, the aggregate amount of Two Hundred Fifty Thousand Dollars (\$250,000) of the Notes and the Warrants to purchase two hundred eighty five thousand five hundred fifty one (285,551) shares of Common Stock to the Investor, (c) on the Third Closing Date, the aggregate amount of Two Hundred Fifty Thousand Dollars (\$250,000) of the Notes and the Warrants to purchase two hundred eighty five thousand five hundred fifty one (285,551) shares of Common Stock to the Investor, (d) on the Fourth Closing Date, the aggregate amount of Two Hundred Fifty Thousand Dollars (\$250,000) of the Notes and the Warrants to purchase two hundred eighty five thousand five hundred fifty one (285,551) shares of Common Stock to the Investor, and (e) on the Fifth Closing Date, the aggregate amount of Two Hundred Fifty Thousand Dollars (\$250,000) of the Notes and the Warrants to purchase two hundred eighty five thousand five hundred fifty one (285,551) shares of Common Stock to the Investor.

2.2 Original Issue Discount . The Company agrees to provide an original issue discount of 10% (the “Original Issue Discount”) to the Investor which will result in an actual Purchase Price of \$1,350,000, in the aggregate. The Investor shall recognize the Original Issue Discount on the Fifth Closing by reducing the amount the Investor actually pays at the Fifth Closing by \$150,000 (which is equal to the total amount of the Original Issue Discount of the Purchase Price) but the Investor will still receive its Note for \$250,000 plus any pre-paid interest required under the Note for the Fifth Closing. In the event that an Event of Default occurs prior to the Fifth Closing Date or if the Investor is not obligated under the terms of this Agreement to fund the Fifth Closing, then the Original Issue Discount shall be recognized by increasing the Original Principal Amount of the Note purchased at the First Closing as follows: (i) after the First Closing but before the Second Closing then the amount of the Note for the First Closing shall be increased to \$600,000 (which includes the \$50,000 of prepaid interest on such Note); (ii) after the Second Closing but before the Third Closing then the amount of the Note for the First Closing shall be increased to \$625,000 (which includes the \$50,000 of prepaid interest on such Note); (iii) after the Third Closing but before the Fourth Closing then the amount of the Note for the First Closing shall be increased to \$650,000 (which includes the \$50,000 of prepaid interest on such Note); and (iv) after the

Fourth Closing but before the Fifth Closing then the amount of the Note for the First Closing shall be increased to \$675,000 (which includes the \$50,000 of prepaid interest on such Note).

2.3 Escrow of Purchase Price. In the event Stockholder Approval is not obtained prior to a Closing Date, such Purchase Price that is due on the respective Closing Date shall be deposited into an escrow account pursuant to the terms of the escrow agreement between the Company, the Investor and Anslow & Jaclin, LLP (as escrow agent) in substantially the form attached hereto as Exhibit B (the “Escrow Agreement”).

3. Closing.

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3.1 The First Closing. Subject to the terms and conditions of this Agreement, the Company shall deliver to the Investor the Notes and the Warrants, registered in such name or names as the Investor may designate, upon payment in full of the specified portion of the Purchase Price set forth on Schedule I to the Company by the Investor pursuant to the Escrow Agreement. The first closing (the “First Closing”) of the purchase and sale of the Notes and the Warrants shall take place at the offices of Anslow & Jaclin, LLP, 195 Route 9 South, Manalapan, New Jersey 07726, at 12:00 p.m., New York, New York, time on the date that Shareholder Approval is obtained (the “First Closing Date”) or at such other location and on such other date as the Company and the Investor shall mutually agree.

3.2 The Second Closing. Subject to the terms and conditions of this Agreement and all representations, warranties and covenants being true and accurate on the date of the Second Closing Date, the Company shall deliver to the Investor the Notes and the Warrants, registered in such name or names as the Investor may designate, upon payment in full of the specified portion of the Purchase Price set forth on Schedule II to the Company by the Investor pursuant to the Escrow Agreement. This second closing (the “Second Closing”) of the purchase and sale of the Notes and Warrants shall take place at such location and on the date that is thirty (30) days following the First Closing Date (the “Second Closing Date”).

3.3 The Third Closing. Subject to the terms and conditions of this Agreement and all representations, warranties and covenants being true and accurate on the date of the Third Closing Date, the Company shall deliver to the Investor the Notes and the Warrants, registered in such name or names as the Investor may designate, upon payment in full of the specified portion of the Purchase Price set forth on Schedule III to the Company by the Investor pursuant to the Escrow Agreement. This third closing (the “Third Closing”) of the purchase and sale of the Notes and Warrants shall take place at such location and on the date that is thirty (30) days following the Second Closing Date (the “Third Closing Date”).

3.4 The Fourth Closing. Subject to the terms and conditions of this Agreement and all representations, warranties and covenants being true and accurate on the date of the Fourth Closing Date, the Company shall deliver to the Investor the Notes and the Warrants, registered in such name or names as the Investor may designate, upon payment in full of the specified portion of the Purchase Price set forth on Schedule IV to the Company by the Investor pursuant to the Escrow Agreement. This fourth closing (the “Fourth Closing”) of the purchase and sale of the Notes and Warrants shall take place at such location and on the date that is thirty days following the Third Closing Date (the “Fourth Closing Date”).

3.5 The Fifth Closing. Subject to the terms and conditions of this Agreement and all representations, warranties and covenants being true and accurate on the date of the Fifth Closing Date, the Company shall deliver to the Investor the Notes and the Warrants, registered in such name or names as the Investor may designate, upon payment in full of the specified portion of the Purchase Price, subject to the Original Issue Discount for all amounts included in the Fifth Closing and in all prior Closings, set forth on Schedule V to the Company by the Investor pursuant to the Escrow Agreement. This fifth closing (the “Fifth Closing”) of the purchase and sale of the Notes and Warrants shall take place at such location and on the date that is thirty (30) days following the Fourth Closing Date (the “Fifth Closing Date”).

The First Closing Date, the Second Closing Date, the Third Closing Date, the Fourth Closing Date and the Fifth Closing Date shall be sometimes referred to herein as a “Closing Date”, and the First Closing, the Second Closing, the Third Closing, the Fourth Closing and the Fifth Closing shall be sometimes referred to herein as a “Closing”.

4. Representations and Warranties of the Company. The Company hereby represents and warrants to the Investor that, except as set forth in its public filings with the Commission:

4.1 Organization, Good Standing and Qualification. Each of the Company and its Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to carry on its business as now conducted and to own its properties. Each of the Company and its Subsidiaries is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property makes such qualification or leasing necessary unless the failure to so qualify has not had and could not reasonably be expected to have a Material Adverse Effect.

4.2 Authorization. The Company has full corporate power and authority and has taken all requisite action on the part of the Company, its officers, directors and stockholders necessary for (i) the authorization, execution and delivery of the Transaction Documents, (ii) the authorization of the performance of all obligations of the Company hereunder, and (iii) the authorization, issuance (or reservation for issuance) and delivery of the Notes and Warrants; provided, however, that the Investor hereby acknowledge and agree the issuance and reservation for issuance of the shares of Common Stock issuable upon the conversion of the Notes or exercise of the Warrants is subject to the receipt by the Company of the Stockholder Approval in accordance with Section 7.7 below. When delivered in accordance with the terms hereof, the Transaction Documents will constitute the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability, relating to or affecting creditors' rights generally.

4.3 Capitalization. Except as disclosed in the Company's SEC Filings, the Company does not have outstanding any options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, greater than 50,000 shares of its capital stock or any such options, rights, convertible securities or obligations.

Except as set forth in the Company's SEC Filings, the Company does not have outstanding stockholder purchase rights or "poison pill" or any similar arrangement in effect giving any Person the right to purchase any equity interest in the Company upon the occurrence of certain events.

4.4 Valid Issuance. Upon receipt of the Stockholder Approval, the Conversion Shares will be duly authorized and, when issued upon the due conversion of the Notes, will be validly issued, fully paid and nonassessable, and shall be free and clear of all encumbrances and restrictions (other than those created by the Investor), except for restrictions on transfer set forth in the Transaction Documents or imposed by applicable securities laws. Upon receipt of the Stockholder Approval, the Warrants will be duly and validly authorized. The Warrant Shares have been duly authorized and, when issued upon the due exercise of the Warrants, will be validly issued, fully paid and non-assessable free and clear of all encumbrances and restrictions, except for restrictions on transfer set forth in the Transaction Documents or imposed by applicable securities laws and except for those created by the Investor. From and after the date of the receipt of the Stockholder Approval, the Company will, in its reasonable discretion as the total number of shares of Common Stock that may be issued upon conversion of the Notes is unknown and subject to the maximum number of authorized shares of Common Stock available under the Company's Certificate of Incorporation, have reserved a sufficient number of shares of Common Stock for issuance upon the conversion of the Notes and upon exercise of the Warrants, free and clear of all encumbrances and restrictions, except for restrictions on transfer set forth in the Transaction Documents or imposed by applicable securities laws and except for those created by the Investor.

4.5 Consents. Assuming no exercise of the Warrants, the execution, delivery and performance by the Company of the Transaction Documents and the offer, issuance and sale of the Securities require no consent of, action by or in respect of, or filing with, any Person, governmental body, agency, or official other than the consent of the holder of the Company's New Jersey Economic Development Authority Bonds or filings that have been made pursuant to applicable state securities laws and post-sale filings pursuant to applicable state and federal securities laws and Nasdaq regulations which the Company undertakes to file within the applicable time periods. Subject to the accuracy of the representations and warranties of each Investor set forth in Section 5.1 hereof, the Company has taken all action necessary to exempt (i) the issuance and sale of the Securities, (ii) the issuance of the Conversion Shares upon the due conversion of the Notes and the issuance of the Warrant Shares upon due exercise of the Warrants, and (iii) the other transactions contemplated by the Transaction Documents from the provisions of any stockholder rights plan or other "poison pill" arrangement, any anti-takeover, business combination or control share law or statute binding on the Company or to which the Company or any of its assets and properties may be subject and any provision of the Company's Certificate of Incorporation or Bylaws that is or could reasonably be expected to become applicable to the Investor, assuming Investor's compliance with the stock ownership limitation provisions set forth in the Note and/or Warrants, as a result of the transactions contemplated hereby, including without limitation, the issuance of the Securities and the ownership, disposition or voting of the Securities by

the Investor or the exercise of any right granted to the Investor pursuant to this Agreement or the other Transaction Documents.

4.6 Delivery of SEC Filings; Business. The Company has made available to the Investor through the IDEA and EDGAR systems, true and complete copies of the Company's most recent Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007 (the "10-K"), and all other reports filed by the Company pursuant to the 1934 Act, including pursuant to Section 13(a) or 15(d) thereof, since the filing of the 10-K and prior to the date hereof (collectively, the "SEC Filings"). With respect to any of the foregoing filings, to the extent such filings have been amended prior to the date hereof, the term "SEC Filings" shall be deemed to refer only to such amended versions of the filing.

4.7 Use of Proceeds. The net proceeds of the sale of the Notes and the Warrants hereunder shall be used by the Company and its Subsidiaries for working capital, capital expenditures and general corporate purposes.

4.8 Certain Changes. Since September 30, 2008, except as identified and described in the SEC Filings, (i) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock (other than in connection with repurchases of unvested stock issued to employees of the Company) and (ii) the Company has not issued any equity securities to any officer, director or Affiliate, except Common Stock issued in the ordinary course as dividends on outstanding preferred stock or issued pursuant to existing Company stock option or stock purchase plans or executive and director compensation arrangements disclosed in the SEC Filings.

4.9 SEC Filings. At the time of filing thereof, the SEC Filings complied as to form in all material respects with the requirements of the 1934 Act and did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

4.10 No Conflict, Breach, Violation or Default. The execution, delivery and performance of the Transaction Documents by the Company and the issuance and sale of the Securities will not conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under (i) the Company's Certificate of Incorporation or the Company's Bylaws, both as in effect on the date hereof (true and complete copies of which have been filed with the Commission), or (ii)(a) any statute, rule, regulation or order of any governmental agency or body or any court, domestic or foreign, having jurisdiction over the Company, any Subsidiary or any of their respective assets or properties, or (b) any agreement or instrument to which the Company or any Subsidiary is a party or by which the Company or a Subsidiary is bound or to which any of their respective assets or properties is subject, except, in the case of clause (ii) only, such breaches, violations or defaults that individually or in the aggregate would not cause a Material Adverse Effect.

4.11 Litigation. There are no pending legal actions, suits or proceedings against or affecting the Company, its Subsidiaries or any of its or their properties that has had or are reasonably expected to have a Material Adverse Effect. To the Company's Knowledge, there has not been, and there is not pending, any investigation by the Commission involving the Company or any current or former director or officer of the Company. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under the 1933 Act or the 1934 Act.

4.12 Financial Statements. The financial statements included in each SEC Filing present fairly, in all material respects, the consolidated financial position of the Company as of the dates shown and its consolidated results of operations and cash flows for the periods shown, and such financial statements have been prepared in conformity with United States generally accepted accounting principles applied on a consistent basis ("GAAP") (except as may be disclosed therein or in the notes thereto, and, in the case of quarterly financial statements, as permitted by Form 10-Q under the 1934 Act); provided, however, that the unaudited financial statements are subject to normal year-end audit adjustments (which are not expected to be material) and do not contain all footnotes required under GAAP.

4.13 NASDAQ Compliance. The Common Stock is registered pursuant to Section 12(b) of the 1934 Act and is listed on the

Nasdaq Capital Market (the “Nasdaq”), and the Company has not received any notification that the Commission, the Nasdaq or the Financial Industry Regulatory Authority, Inc. is contemplating terminating such registration or listing.

4.14 Brokers and Finders. Except with respect to fees payable to Chardan Capital Markets, LLC, no Person will have, as a result of the transactions contemplated by the Transaction Documents, any valid right, interest or claim against or upon the Company, any Subsidiary or an Investor for any commission, fee or other compensation pursuant to any agreement, arrangement or understanding entered into by or on behalf of the Company.

4.15 No Directed Selling Efforts or General Solicitation. Neither the Company nor any Person acting on its behalf has conducted any general solicitation or general advertising (as those terms are used in Regulation D) in connection with the offer or sale of any of the Securities.

4.16 No Integrated Offering. Neither the Company nor any person authorized by the Company, nor any Person acting on its or such authorized person’s behalf has, directly or indirectly, made any offers or sales of any Company security or solicited any offers to buy any security, under circumstances that would adversely affect reliance by the Company on Section 4(2) for the exemption from registration for the transactions contemplated hereby or would require registration of the Securities under the 1933 Act.

4.17 Private Placement. Assuming the accuracy of the Investor’s representations set forth in Section 5.1 hereof, the offer and sale of the Securities to the Investor as contemplated hereby is exempt from the registration requirements of the 1933 Act.

4.18 Reorganization. Neither the Company nor any Subsidiary has been decreed or ordered by a court having jurisdiction adjudging the Company bankrupt or insolvent, or approving a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company, under federal bankruptcy law, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or other similar law; or the commencement against the Company of a proceeding under the federal bankruptcy law or any applicable federal or state bankruptcy, insolvency or similar law and the continuance of any such proceedings; or the commencement by the Company of a voluntary case under federal bankruptcy law, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency, or other similar law, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under federal bankruptcy law or any other applicable federal or state law, or the consent by it to the filing of such petition or to the appointment of a receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the taking of corporate action by the Company in furtherance of any such action.

## 5. Representations, Warranties and Covenants of the Investor.

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5.1 Representations and Warranties of the Investor. Each of the Investor hereby severally, and not jointly, represents and warrants to the Company that:

(a) Organization and Existence. The Investor is a validly existing corporation, limited partnership or limited liability company and has all requisite corporate, partnership or limited liability company power and authority to invest in the Securities pursuant to this Agreement.

(b) Authorization. The execution, delivery and performance by such Investor of the Transaction Documents to which such Investor is a party have been duly authorized and will each constitute the valid and legally binding obligation of such Investor, enforceable against such Investor in accordance with their respective terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability, relating to or affecting creditors’ rights generally.

(c) Purchase Entirely for Own Account. The Securities to be received by such Investor hereunder will be acquired for such Investor's own account, not as nominee or agent, and not with a view to the resale or distribution of any part thereof in violation of the 1933 Act, and such Investor has no present intention of selling, granting any participation in, or otherwise distributing the same in violation of the 1933 Act without prejudice, however, to such Investor's right at all times to sell or otherwise dispose of all or any part of such Securities in compliance with applicable federal and state securities laws. Nothing contained herein shall be deemed a representation or warranty by such Investor to hold the Securities for any period of time. Such Investor is not a broker-dealer registered with the Commission under the 1934 Act or an entity engaged in a business that would require it to be so registered.

(d) Investment Experience. Such Investor acknowledges that it can bear the economic risk and complete loss of its investment in the Securities and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment contemplated hereby.

(e) Disclosure of Information. Such Investor has had an opportunity to receive all information related to the Company requested by it and to ask questions of and receive answers from the Company regarding the Company, its business and the terms and conditions of the offering of the Securities. Such Investor acknowledges receipt of copies of the SEC Filings. Neither such inquiries nor any other due diligence investigation conducted by such Investor shall modify, limit or otherwise affect such Investor's right to rely on the Company's representations and warranties contained in this Agreement.

(f) Restricted Securities; No Public Market. Such Investor understands that the Securities have not been, and will not be, registered under the 1933 Act, by reason of a specific exemption from the registration provisions of the 1933 Act that depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Investor's representations as expressed herein. Such Investor understands that such Securities are "restricted securities" under applicable United States of America federal and state securities laws and that, pursuant to these laws, the Investor must hold such Securities indefinitely unless registered with the Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. Such Investor further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Securities, and on requirements relating to the Company that are outside of the Investor's control, and that the Company is under no obligation and may not be able to satisfy. Such Investor understands that no public market now exists for any of the Securities, and that the Company has made no assurances that a public market will ever exist for the Securities.

(g) Legends. It is understood that, except as provided below, certificates evidencing the Securities may bear the following or any similar legend:

(i) "The securities represented hereby have not been registered under the Securities Act of 1933, as amended (the "Act") and may not be transferred unless (A) such securities have been registered for sale pursuant to the Act, (B) such securities may be sold without volume restriction pursuant to Rule 144, or (C) the Company has received an opinion of counsel reasonably satisfactory to it that such transfer may lawfully be made without registration under the Act or qualification under applicable state securities laws."

(ii) "For purposes of Sections 1272, 1273, and 1275 of the United States Internal Revenue Code of 1986, as amended, this security is issued with original issue discount for United States Federal Income Tax purposes. The issue price, amount of original issue discount, issue date and yield to maturity for this security are available from the Company by telephoning the Company's finance department at (617) 624-0111 or by submitting a written request to: Converted Organics, Inc., 7A Commercial Wharf West, Boston, Massachusetts 02110, Attention: Ed Gildea."

(iii) If required by the authorities of any state in connection with the issuance of sale of the Securities, the legend required by such state authority.

(h) Accredited Investor. Such Investor is an accredited investor as defined in Rule 501(a) of Regulation D, as amended, under the 1933 Act.

(i) No General Solicitation. Such Investor did not learn of the investment in the Securities as a result of any general solicitation or general advertising.

(j) Brokers and Finders. Except as otherwise disclosed, no Person will have, as a result of the transactions contemplated by the Transaction Documents, any valid right, interest or claim against or upon the Company, any Subsidiary or an Investor for any commission, fee or other compensation pursuant to any agreement, arrangement or understanding entered into by or on behalf of such Investor.

(k) Reliance on Exemptions. Such Investor understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of the 1933 Act, the rules and regulations promulgated thereunder and state securities laws and that the Company is relying upon the truth and accuracy of, and the Investor's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Investor set forth herein in order to determine the availability of such exemptions and the eligibility of the Investor to acquire the Securities.

(l) Investment Decision. Such Investor understands that nothing in the Agreement or any other materials presented to such Investor in connection with the purchase and sale of the Securities constitutes legal, tax or investment advice. Such Investor has consulted such legal, tax and investment advisors as it, in its sole discretion, has deemed necessary or appropriate in connection with its purchase of the Securities. Such Investor acknowledges that it has, independently and without reliance upon the Agents or any other Investor and based on such documents and information as it has deemed necessary or appropriate, made its own analysis and decision to enter into this Agreement. Such Investor also acknowledges that it will, independently and without reliance upon the Agents or any other Investor and based on such documents and information as it shall from time to time deem necessary or appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement or any other Transaction Document.

(m) Risk of Loss. Such Investor understands that its investment in the Securities involves a significant degree of risk, including a risk of total loss of such Investor's investment, and such Investor has full cognizance of and understands all of the risk factors related to such Investor's purchase of the Securities, including, but not limited to, those set forth under or incorporated by reference under the caption "Risk Factors" in the SEC Filings. Such Investor understands that the market price of the Common Stock has been volatile and that no representation is being made as to the future value of the Common Stock.

(n) No Government Review. Such Investor understands that no United States federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Securities.

(o) Liquidity. Such Investor has sufficient liquid assets to fund and fulfill its Purchase Price commitment by the Closing Date contemplated by Section 3 hereof.

5.2 Voting Agreement. Each Investor hereby acknowledges that the Company shall not be obligated to issue the Conversion Shares and the Warrant Shares prior to receiving the Stockholder Approval. Each Investor hereby agrees if the issuance of the Conversion Shares and Warrant Shares is submitted for stockholder approval at any annual or special meeting of the Company's stockholders or by written consent, and such Investor beneficially owns any securities of the Company entitled to vote thereon or consent thereto, then such Investor shall (a) appear at such meeting or otherwise cause his, her or its shares of voting securities of the Company, whether now owned or hereafter acquired (together, the "Voting Securities") to be counted as present thereat, and (b) vote or to act by written consent with respect to (or cause to be voted or acted upon by written consent), (i) all Voting Securities for which the Investor is the record holder or beneficial owner at the time of such vote or action by written consent and (ii) all Voting Securities as to which the Investor at the time of such vote or action by written consent has voting control, in each case, in favor of the issuance of the Conversion Shares and Warrant Shares, and if solicited by the Company, such increase in the authorized capital as may be reasonably requested by the Company. Each Investor hereby agrees to execute such proxies, additional voting agreements, or other instruments as may be reasonably requested by the Investor or the Company in connection with this Section 5.2.

6.1 Conditions to the Investor' Obligations . The obligation of each Investor to purchase the Notes and the Warrants at each Closing is subject to the fulfillment, on or prior to such Closing Date, of the following conditions:

(a) The representations and warranties made by the Company in Section 4 hereof qualified as to materiality shall be true and correct in all material respects on such Closing Date. The Company shall have performed in all material respects all obligations and covenants herein required to be performed by it on or prior to such Closing Date.

(b) The Company is not in default under any of the Transaction Documents for a prior Closing and an Event of Default (as defined in any of the Notes) has not occurred.

(c) Other than the Stockholder Approval, the Company shall have obtained any and all consents, permits, approvals, registrations and waivers necessary or appropriate for consummation of the purchase and sale of the Securities and the consummation of the other transactions contemplated by the Transaction Documents, all of which shall be in full force and effect.

(d) No judgment, writ, order, injunction, award or decree of or by any court, or judge, justice or magistrate, including any bankruptcy court or judge, or any order of or by any governmental authority, shall have been issued, and no action or proceeding shall have been instituted by any governmental authority, enjoining or preventing the consummation of the transactions contemplated hereby or in the other Transaction Documents.

(e) The Company shall have delivered to such Investor a Certificate, executed on behalf of the Company by its Chief Executive Officer or its Chief Financial Officer, dated as of such Closing Date, certifying to the fulfillment of the conditions specified in subsections (a), (b), (c) and (g) of this Section 6.1.

(f) The Company shall have delivered to such Investor a Certificate, executed on behalf of the Company by its Secretary, dated as of such Closing Date, certifying the resolutions adopted by the Board of Directors of the Company approving (i) the transactions contemplated by this Agreement and the other Transaction Documents and (ii) the issuance of the Securities, certifying the current versions of the Certificate of Incorporation and Bylaws of the Company and certifying as to the signatures and authority of persons signing the Transaction Documents and related documents on behalf of the Company.

(g) No stop order or suspension of trading shall have been imposed by the Commission or any other governmental or regulatory body with respect to public trading in the Common Stock.

(h) The Common Stock shall not have been suspended, as of such Closing Date, by the Commission or the Principal Trading Market from trading on the Principal Trading Market nor shall, to the Company's Knowledge, suspension, as of such Closing Date, by the Commission or the Principal Trading Market have been threatened.

(i) The Company and the Investor have entered into an agreement amending the amendment dated January 29, 2009 to its secured convertible debentures by and between the Company and Investor to remove the restriction preventing the Investor from selling shares of Company common stock on any trading day in excess of the amounts as set forth in the amendment.

(j) Oppenheimer Rochester National Municipals and Oppenheimer New Jersey Municipal Fund shall enter into an agreement with the Company whereby they will release to the Company an aggregate of approximately \$2,000,000 from certain escrow accounts and will agree to defer all interest owed by the Company on its industrial revenue bonds through July 31, 2009.

(a) Conditions to Each Closing . The Company's obligation to sell and issue the Notes and the Warrants at each Closing is subject to the fulfillment on or prior to each Closing Date of the following conditions, any of which may be waived by the Company. The representations and warranties made by such Investor in Section 5.1 hereof shall be true and correct in all material respects when made, and shall be true and correct in all material respects on such Closing Date with the same force and effect as if they had been made on and as of said date. Such Investor shall have performed in all material respects all obligations and covenants herein required to be performed by them on or prior to such Closing Date.

(b) Conditions to the First Closing . In addition to the satisfaction (or waiver) of the conditions set forth in Section 6.2(a), the Company's obligation to sell and issue the Notes and Warrants at the First Closing is subject to the delivery of the specified portion of the Purchase Price as set forth on Schedule I by the Investor to the Company.

(c) Conditions to the Second Closing . In addition to the satisfaction (or waiver) of the conditions set forth in Section 6.2(a), the Company's obligation to sell and issue the Notes and Warrants at the Second Closing is subject to the delivery of the specified portion of the Purchase Price as set forth on Schedule II by the Investor to the Company.

(d) Conditions to the Third Closing . In addition to the satisfaction (or waiver) of the conditions set forth in Section 6.2(a), the Company's obligation to sell and issue the Notes and Warrants at the Third Closing is subject to the delivery of the specified portion of the Purchase Price as set forth on Schedule III by the Investor to the Company.

(d) Conditions to the Fourth Closing . In addition to the satisfaction (or waiver) of the conditions set forth in Section 6.2(a), the Company's obligation to sell and issue the Notes and Warrants at the Fourth Closing is subject to the delivery of the specified portion of the Purchase Price as set forth on Schedule IV by the Investor to the Company.

(d) Conditions to the Fifth Closing . In addition to the satisfaction (or waiver) of the conditions set forth in Section 6.2(a), the Company's obligation to sell and issue the Notes and Warrants at the Fifth Closing is subject to the delivery of the specified portion of the Purchase Price as set forth on Schedule V by the Investor to the Company.

## 7. Covenants and Agreements of the Company.

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7.1 Reservation of Common Stock . From and after the date of the receipt of the Stockholder Approval, the Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of providing for the conversion of the Notes, and the exercise of the Warrants, such number of shares of Common Stock as shall from time to time equal the Conversion Shares, and the Warrant Shares, as the Company in its discretion shall believe reasonable with the understanding that the total number of shares of Common Stock that may be issued upon conversion of the Notes is unknown; provided that the provisions of this section are subject to the limitations set forth in the Company's Certificate of Incorporation as to the maximum number of authorized shares of Common Stock available thereunder.

7.2 No Conflicting Agreements . The Company will not take any action, enter into any agreement or make any commitment that would conflict with the Company's obligations to the Investor under the Transaction Documents in any material respect.

7.3 Compliance with Laws . The Company will comply in all material respects with all applicable laws, rules, regulations, orders and decrees of all governmental authorities.

7.4 Listing of Underlying Shares and Related Matters . If the Company applies to have its Common Stock or other securities traded on any stock exchange or market, it shall include in such application the Conversion Shares and the Warrant Shares and will take such

other action as is necessary to cause such Common Stock to be so listed. Following any such listing, the Company will use commercially reasonable efforts to continue the listing and trading of its Common Stock on such stock exchange or market and, in accordance, therewith, will use commercially reasonable efforts to comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of such stock exchange or market, as applicable.

7.5 Removal of Legends. In connection with any sale or disposition of the Securities by an Investor pursuant to and in accordance with Rule 144 or pursuant to any other exemption under the 1933 Act such that the purchaser acquires freely tradable shares and upon compliance by the Investor with the requirements of this Agreement and the 1933 Act, the Company shall or, in the case of Common Stock, shall cause the transfer agent for the Common Stock (the "Transfer Agent") to issue replacement certificates representing the Securities sold or disposed of without restrictive legends. At any time when one or more of the Securities may be freely sold, the Company shall, or shall cause the Transfer Agent to, promptly cause the Investor's Securities to be replaced with Securities which do not bear restrictive legends, and Conversion Shares subsequently issued upon the due conversion of the Notes and Warrant Shares subsequently issued upon due exercise of the Warrants shall not bear such restrictive legends provided such Securities may be freely sold or are covered by an effective Registration Statement.

7.6 Use of Proceeds. The Company shall use the net proceeds of the sale of the Notes and the Warrants as provided in Section 4.7.

7.7 Stockholder Approval. As soon as practicable following the execution of this Agreement, but in any event within 10 calendar days thereof, the Company shall cause to be prepared and filed with the Securities and Exchange Commission a preliminary proxy statement or consent solicitation statement (the "Preliminary Proxy Statement") to obtain approval of the Company's shareholders of the issuance of shares of Common Stock issuable upon conversion of the Notes and exercise of the Warrant in accordance with Nasdaq rules (the "Stockholder Approval"). Upon approval by the Commission of such preliminary proxy or consent solicitation statement or, if the Commission has not reviewed such, at the expiration of 10 calendar days from the filing of the preliminary proxy statement or consent solicitation statement, the Company shall file a definitive proxy statement or consent solicitation statement and call and hold a shareholder meeting, as soon as practicable, but in all events within 45 calendar days of the filing of such definitive proxy statement to obtain the Stockholder Approval.

If the Stockholder Approval is not received on or before the later of (a) May 15, 2010 or (b) 45 calendar days after the filing of the definitive proxy statement, if the Commission reviews the Preliminary Proxy Statement, then the obligation of the Investor to purchase the Notes and the Warrant shall terminate.

7.8 Registration Rights. On or prior to the First Closing Date, the Company shall enter into a registration rights agreement (the "Registration Rights Agreement") in form as attached hereto as a Transaction Document pursuant to which the Company will agree to register the resale of the Conversion Shares, the Warrants and the Warrant Shares under the 1933 Act.

7.9 Payment of Legal Fees. On or promptly after the date hereof, but in no event later than 5 calendar days following the date hereof, the Company shall deliver to Anslow & Jaclin, LLP legal fees in the amount of \$50,000 pursuant to Section 8.5, herein.

7.10 NASDAQ Listing Compliance. The Common Stock shall remain registered pursuant to Section 12(b) of the 1934 Act and listed on the Nasdaq.

8. Miscellaneous.

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8.1 Transfer and Exchange of Notes; Successors and Assigns.

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(a) The Notes may be assigned or transferred in whole, or in part in increments of \$25,000, as herein provided and subject to compliance with all applicable federal and state securities laws. The Company shall maintain a register (the "Register") for the recordation of the names and addresses of the Investor and the principal amounts of the Notes, which shall be numbered R-1 and upwards in order of issuance. The entries in the Register shall be conclusive and binding for all purposes, absent manifest error. The Notes may be assigned or transferred, whether in whole or in part, only by registration of such assignment or transfer on the Register. Upon surrender for registration of transfer of any Note at the Company's chief executive office, (i) duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Company and duly executed by the registered owner or his attorney duly authorized in writing, and

(ii) unless the assignee or transferee is already a party to this Agreement, accompanied by a joinder agreement satisfactory to the Company in which the assignee or transferee agrees to be bound by this Agreement, whereupon the Company shall execute and deliver in the name of the transferee or transferees a new Note or Notes for the principal amount so assigned, and in the case of partial assignments and transfers, shall issue a replacement Note to the transferor in the principal amount not so assigned or transferred. Notes may be exchanged at said office of the Company for a like aggregate principal amount of Notes in minimum denominations of \$25,000. The Company shall execute and deliver Notes bearing numbers not contemporaneously then outstanding. As to any Note, the Person in whose name such Note shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of either principal of, or interest on, any Note shall be made only to or upon the order of the registered owner thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Note to the extent of the sum or sums so paid.

(b) This Agreement may not be assigned by a party hereto without the prior written consent of the Company or the Investor, as applicable; provided, however, that an Investor may assign its rights and delegate its duties hereunder in whole or in part to an Affiliate or to a third party acquiring some or all of its Securities in a transaction complying with the provisions of the Notes and applicable securities laws without the prior written consent of the Company or the other Investor. The provisions of this Agreement shall inure to the benefit of and be binding upon the respective permitted successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

8.2 Counterparts; Faxes. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement may also be executed and transmitted via facsimile, or by portable document format via electronic mail, each of which shall be deemed an original.

8.3 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

8.4 Notices. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given as hereinafter described (i) if given by personal delivery, then such notice shall be deemed given upon such delivery, (ii) if given by telex or telecopier, then such notice shall be deemed given upon receipt of confirmation of complete transmittal, (iii) if given by mail, then such notice shall be deemed given upon the earlier of (A) receipt of such notice by the recipient or (B) three days after such notice is deposited in first class mail, postage prepaid, and (iv) if given by an internationally recognized overnight air courier, then such notice shall be deemed given one Business Day after delivery to such carrier. All notices shall be addressed to the party to be notified at the address as follows, or at such other address as such party may designate by ten days' advance written notice to the other party:

If to the Company:

Converted Organics, Inc.  
7A Commercial Wharf West  
Boston, Massachusetts 02110  
Attention: Ed Gildea  
Phone: (617) 624-0111  
Fax: (617) 625-0333

with a copy to:

Cozen O'Connor  
The Army and Navy Building  
1627 I Street, NW

Suite 1100  
Washington, DC 20006  
Attn: Ralph V. De Martino, Esq.  
Phone: (202) 912-4830  
Fax: (202) 912-4830

If to the Investor:

Professional Offshore Opportunity Fund, Ltd.  
1400 Old Country Road, Suite 206  
Westbury, New York 11590  
Attention: Howard Berger  
Phone: (516) 228-0070  
Fax: (516) 228-8083

with a copy to (which shall not constitute notice):

Anslow & Jaclin, LLP  
195 Route 9 South, Suite 204  
Manalapan, New Jersey 07726  
Attention:

Joseph M. Lucosky, Esq.  
Eric M. Stein, Esq.

Phone: (732) 409-1212  
Fax: (732) 577-1188

8.5 Expenses. The parties hereto shall pay their own costs and expenses in connection herewith, except that the Company shall pay the Investor's legal fees of \$50,000 (which shall be paid promptly after the date hereof). Such expenses shall be paid upon demand and receipt by the Company of supporting documentation evidencing the expenses. The Company shall reimburse the Investor upon demand for the reasonable attorneys' fees for one law firm representing the Investor as a group, in connection with any amendment, modification or waiver of this Agreement or the other Transaction Documents. In the event that legal proceedings are commenced by any party to this Agreement against another party to this Agreement in connection with this Agreement or the other Transaction Documents, the party or parties which do not prevail in such proceedings shall severally, but not jointly, pay their pro rata share of the reasonable attorneys' fees and other reasonable out-of-pocket costs and expenses incurred by the prevailing party in such proceedings.

8.6 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Investor. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any Securities issued under this Agreement at the time outstanding, each future holder of all such Securities, and the Company.

8.7 Publicity. Except as set forth below, no public release or announcement concerning the transactions contemplated hereby shall be issued by the Company or the Investor without the prior consent of the Company (in the case of a release or announcement by the Investor) or the Investor (in the case of a release or announcement by the Company) (which consents shall not be unreasonably withheld), except as such release or announcement may be required by law or the applicable rules or regulations of any securities exchange or securities market, in which case the Company or the Investor, as the case may be, shall allow the Investor or the Company, as applicable, to the extent reasonably practicable in the circumstances, reasonable time to comment on such release or announcement in advance of such issuance. As soon as practicable but no later than four Business Days following the First Closing Date, the Company will publicly disclose the transactions contemplated hereby in a press release and, in connection therewith, will, no later than four Business Days following the First Closing Date, file with the Commission either on a Current Report on Form 8-K or on the Company's next periodic public report, to the extent permissible, which may attach as exhibits copies of the Transaction Documents.

8.8 Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof but shall be interpreted as if it were written so as to be enforceable to the maximum extent permitted by applicable law, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the parties hereby waive any provision of law which renders any provision hereof prohibited or unenforceable in any respect.

8.9 Entire Agreement. This Agreement, including the Exhibits, and the other Transaction Documents constitute the entire agreement among the parties hereof with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, both oral and written, between the parties with respect to the subject matter hereof and thereof.

8.10 Further Assurances. The parties shall execute and deliver all such further instruments and documents and take all such other actions as may reasonably be required to carry out the transactions contemplated hereby and to evidence the fulfillment of the agreements herein contained.

8.11 Governing Law; Consent to Jurisdiction; Waiver of Jury Trial. This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of New York without regard to any law or principles that would make this choice of law provision invalid. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of New York located in New York County and the United States District Court for the Southern District of New York for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. Each of the parties hereto irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. Each party hereto irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. **EACH OF THE PARTIES HERETO WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS AGREEMENT AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.**

8.12 Payment Set Aside. To the extent that the Company makes a payment or payments to any Investor pursuant to any Transaction Document or an Investor enforces or exercises its rights thereunder, and such payment or payments or the proceeds of such enforcement or exercise or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Company, a trustee, receiver or any other person under any law (including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause of action), then to the extent of any such restoration the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

8.13 Adjustments in Share Numbers and Prices. In the event of any stock split, subdivision, dividend or distribution payable in shares of Common Stock (or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly shares of Common Stock), combination or other similar recapitalization or event occurring after the date hereof and prior to the First Closing, each reference in any Transaction Document to a number of shares or a price per share shall be deemed to be amended to appropriately account for such event.

8.14 Independent Nature of Investor' Obligations and Rights. The obligations of each Investor under any Transaction Document are several and not joint with the obligations of any other Investor, and no Investor shall be responsible in any way for the performance of the obligations of any other Investor under any Transaction Document. The decision of each Investor to purchase Securities pursuant to the Transaction Documents has been made by such Investor independently of any other Investor. Nothing contained herein or in any Transaction Document, and no action taken by any Investor pursuant thereto, shall be deemed to constitute the Investor as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Investor are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Investor acknowledges that no other Investor has acted as agent for such Investor in connection with making its investment hereunder and that no Investor will be acting as agent of such Investor in connection with monitoring its investment in the Securities or enforcing its rights under the Transaction Documents. Each Investor shall be

entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Investor to be joined as an additional party in any proceeding for such purpose. The Company acknowledges that each of the Investor has been provided with the same Transaction Documents for the purpose of closing a transaction with multiple Investor and not because it was required or requested to do so by any Investor.

8.15 Tax Matters. For United States Federal income tax purposes, the Company and the Investor agree (i) to treat the Notes as indebtedness and (ii) to treat the Notes as having been issued for an aggregate purchase price of \$1,500,000 and with an original issue discount which shall be amortized pursuant to the terms of the Note. If the Company shall be required to withhold or deduct any tax or other governmental charge from any payment made hereunder or under any Note to the Investor, then, subject to the last sentence of this Section, the Company shall pay to the Investor such additional amounts as are necessary such that the Investor actually receives the amount the Investor would have received if no such withholding or deduction had been required. If the Investor is organized under the laws of a jurisdiction other than the United States, any State thereof or the District of Columbia (a "Non-United States Buyer"), the Investor shall deliver to the Company either (a) two (2) copies of either United States Internal Revenue Service Form W-8BEN or Form W-8ECI, or (b) if the Investor claims exemption from United States Federal withholding tax under Section 871(h) or 881(c) of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the "Code") with respect to payments of "portfolio interest", a certificate in form and substance reasonably acceptable to the Company representing that such Non-United States Buyer is not a bank for purposes of Section 881(c) of the Code, is not a ten percent (10%) shareholder (within the meaning of Section 871(h)(3)(B) of the Code) of the Company and is not a controlled foreign corporation related to the Company (within the meaning of Section 864(d)(4) of the Code), together with Internal Revenue Service Form W-8, in all cases, such forms and other documents being properly completed and duly executed by the Investor. If the Investor is not otherwise exempt from "back-up withholding" it shall deliver to the Company properly completed and duly executed Internal Revenue Service Form W-8 or W-9 indicating that the Investor is subject to "back-up withholding" for United States Federal income tax purposes. The forms and other documents required to be delivered pursuant to the two preceding sentences shall be delivered within ten (10) days after the Closing Date. The Company shall not be required to pay any additional amounts (x) to the Investor, in respect of United States Federal withholding tax or (y) to the Investor, if a United States entity, in respect of United States Federal "back-up withholding" tax.

[REMAINDER OF PAGE LEFT BLANK]

[SIGNATURE PAGE TO PURCHASE AGREEMENT]

IN WITNESS WHEREOF, the parties have executed this Agreement or caused their duly authorized officers to execute this Agreement as of the date first above written.

The Company:

Converted Organics, Inc.

By: \_\_\_\_\_

Name: Ed Gildea

Title: President and Chief Executive Officer

The Investor:

Professional Offshore Opportunity Fund, Ltd.

By: \_\_\_\_\_

Name: Howard Berger

Title: Manager

SCHEDULE I

<u>Investor</u>	Purchase Price	Purchase Price After Original Issue Discount	Principal Amount of Notes (includes pre-paid interest)	Number of Warrant Shares
Professional Offshore Opportunity Fund, Ltd.	\$500,000	\$500,000	\$550,000	571,102
<b>Total</b>	<b><u>\$500,000</u></b>	<b><u>\$500,000</u></b>	<b><u>\$550,000</u></b>	<b><u>571,102</u></b>

SCHEDULE II

<u>Investor</u>	Original Purchase Price	Purchase Price After Original Issue Discount	Principal Amount of Notes (includes pre-paid interest)	Number of Warrant Shares
Professional Offshore Opportunity Fund, Ltd.	\$250,000	\$250,000	\$275,000	285,551
<b>Total</b>	<b><u>\$250,000</u></b>	<b><u>\$250,000</u></b>	<b><u>\$275,000</u></b>	<b><u>285,551</u></b>

SCHEDULE III

<u>Investor</u>	Original Purchase Price	Purchase Price After Original Issue Discount	Principal Amount of Notes (includes pre-paid interest)	Number of Warrant Shares
Professional Offshore Opportunity Fund, Ltd.	\$250,000	\$250,000	\$275,000	285,551
<b>Total</b>	<b><u>\$250,000</u></b>	<b><u>\$250,000</u></b>	<b><u>\$275,000</u></b>	<b><u>285,551</u></b>

SCHEDULE IV

<u>Investor</u>	Original Purchase Price	Purchase Price After Original Issue Discount	Principal Amount of Notes (includes pre-paid interest)	Number of Warrant Shares
Professional Offshore Opportunity Fund, Ltd.	\$250,000	\$250,000	\$275,000	285,551
<b>Total</b>	<b><u>\$250,000</u></b>	<b><u>\$250,000</u></b>	<b><u>\$275,000</u></b>	<b><u>285,551</u></b>

SCHEDULE V

<u>Investor</u>	Original Purchase Price	Purchase Price After Original Issue Discount (1)	Principal Amount of Notes (includes pre-paid interest)	Number of Warrant Shares
Professional Offshore Opportunity Fund, Ltd.	\$250,000	\$100,000	\$275,000	285,551
<b>Total</b>	<b><u>\$250,000</u></b>	<b><u>\$100,000</u></b>	<b><u>\$275,000</u></b>	<b><u>285,551</u></b>

(1) Includes Original Issue Discount for all prior Closings.

## EXHIBIT 10.2

**THE SECURITIES REPRESENTED HEREBY MAY NOT BE TRANSFERRED UNLESS (I) SUCH SECURITIES HAVE BEEN REGISTERED FOR SALE PURSUANT TO THE SECURITIES ACT OF 1933, AS AMENDED, (II) SUCH SECURITIES MAY BE SOLD PURSUANT TO RULE 144, OR (III) THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH TRANSFER MAY LAWFULLY BE MADE WITHOUT REGISTRATION UNDER THE ACT OR QUALIFICATION UNDER APPLICABLE STATE SECURITIES LAWS.**

**FOR PURPOSES OF SECTIONS 1272, 1273, AND 1275 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED, THIS SECURITY IS ISSUED WITH ORIGINAL ISSUE DISCOUNT FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. THE ISSUE PRICE, AMOUNT OF ORIGINAL ISSUE DISCOUNT, ISSUE DATE AND YIELD TO MATURITY FOR THIS SECURITY ARE AVAILABLE FROM THE COMPANY BY TELEPHONING THE COMPANY'S FINANCE DEPARTMENT AT (617) 624-0111 OR BY SUBMITTING A WRITTEN REQUEST TO: CONVERTED ORGANICS, INC., 7A COMMERCIAL WHARF WEST, BOSTON, MASSACHUSETTS 02110, ATTENTION: EDWARD J. GILDEA.**

### 10% CONVERTIBLE NOTE

Issue Date: March 6, 2009 Original Principal Amount: US\$550,000

No. R — 1

FOR VALUE RECEIVED, Converted Organics Inc., a Delaware corporation (the "Company"), hereby unconditionally promises to pay to the order of Professional Offshore Opportunity Fund, LLC (the "Holder"), having an address at 1400 Old Country Road, Suite 206, Westbury, New York 11590, or at such address or at such other place as may be designated in writing by the Holder, or its assigns, the aggregate principal sum of Five Hundred Fifty Thousand Dollars United States Dollars (\$550,000) (the "Original Note Amount"), which is made up of principal of Five Hundred Thousand United States Dollars (\$500,000) (the "Principal") and the pre-computed and pre-paid interest at a rate of ten percent (10%) per annum (the "Interest") from the date set forth above through the first anniversary of this 10% Convertible Note (the "Note"). Subject to the other provisions of this Note, the principal amount of this Note, including any increase in such principal amount or interest, and all accrued and unpaid interest, if any, hereon shall mature and, together with the Original Note Amount (as reduced by the aggregate principal amount of this Note that has been prepaid or converted), become due and payable on the one-year anniversary of the initial release of Escrowed Funds (as defined in the Escrow Agreement dated March 6, 2009) (the "Stated Maturity Date"). Except as provided herein, all payments of principal and interest by the Company under this Note shall be made in United States dollars in immediately available funds to an account specified by the Holder.

The Company will pre-pay the first year's interest on this Note entirely by increasing the principal amount of this Note. For the avoidance of doubt, the Original Note Amount includes the entire principal amount plus the pre-computed and pre-paid amount of interest for the one year period following the date above through the Stated Maturity Date.

In the event that any amount due hereunder is not paid when due, such overdue amount shall bear interest at an annual rate of eighteen percent (18%) until paid in full. In no event shall any interest charged, collected or reserved under this Note exceed the maximum rate then permitted by applicable law and if any such payment is paid by the Company, then such excess sum shall be credited by the Holder as a payment of principal.

This Note is one of a series of Notes (the "Company Notes") of like tenor in an aggregate principal amount of One Million Five Hundred Thousand United States Dollars (\$1,500,000) total with interest at a rate of 10% per annum for a total value of the Company Notes in an aggregate amount of One Million Six Hundred Fifty Thousand Dollars (\$1,650,000) to be issued by the Company from time to time pursuant to the terms of the Purchase Agreement, and subject further to increases, as hereinafter defined.

1. Definitions. Capitalized terms used herein shall have the respective meanings ascribed thereto in the Purchase Agreement unless otherwise defined herein. Unless the context otherwise requires, when used herein the following terms shall have the meaning indicated:

"Affiliate" shall mean, with respect to any Person, any other Person which directly or indirectly through one or more intermediaries Controls, is controlled by, or is under common control with, such Person.

"Board" shall mean the Board of Directors of Company.

"Board Calls" has the meaning set forth in Section 5(b)(x) hereof.

"Trading Day" other than a Saturday or Sunday, on which banks in New York City are open for the general transaction of business.

"Change of Control" shall be deemed to have occurred if, at any time (i) any Person or any Persons acting together that would constitute a "group" for purposes of Section 13(d) under the 1934 Act, or any successor provision thereto (other than one or more of the Investor and their Affiliates), shall acquire beneficial ownership (within the meaning of Rule 13d-3 under the 1934 Act, or any successor

provision thereto) in a single transaction or a series of related transactions, of more than 50% of the aggregate voting power of the Company, other than one or more Investor or Investor's Affiliates; (ii) the Company merges into or consolidates with any other Person, or any Person merges into or consolidates with the Company and, after giving effect to such transaction, the stockholders of the Company immediately prior to such transaction own less than 50% of the aggregate voting power of the Company or the successor entity of such transaction; or (iii) the Company sells or transfers its assets, as an entirety or substantially as an entirety, to another Person.

“Common Stock” shall mean the Common Stock, par value \$0.0001 per share, of the Company or any securities into which shares of Common Stock may be reclassified after the date hereof.

“Common Stock Equivalent Price” means the amount equal to the quotient obtained by dividing (i) with respect to a single transaction or a series of transactions, the total aggregate consideration received by the Company upon the issuance of shares of Common Stock and/or Common Stock Equivalents and (ii) the number of shares of Common Stock issued or issuable upon the conversion, exchange or exercise of any Common Stock Equivalent in connection with such transaction or series of transactions.

“Common Stock Equivalents” means any securities of the Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

“Company” has the meaning set forth in the first paragraph hereof.

“Company Notes” has the meaning set forth in the fourth paragraph hereof.

“Control” (including the terms “controlling”, “controlled by” or “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“Conversion Price” shall initially be equal to the lower of: (i) the Initial Conversion Price; or (ii) the Lowest Fixed Conversion Price. In the event there is an Event of Default, the Conversion Price shall equal the lowest of: (i) the Initial Conversion Price; (ii) the Lowest Fixed Conversion Price; and (iii) the Default Conversion Price.

“Conversion Shares” has the meaning set forth in the Purchase Agreement.

“Default Conversion Price” shall mean 70% of the average of the three lowest Market Prices of the Common Stock during the twenty (20) day trading period immediately prior to any conversion.

“Event of Default” has the meaning set forth in Section 6 hereof.

“Fair Market Value” shall mean (i) with respect to any publicly traded securities, the Market Price of such securities and (ii) with respect to any other securities or other assets, the fair market value of such other securities or other assets as determined by the Board in the good faith exercise of its reasonable business judgment.

“Final Redemption Premium” has the meaning set forth in Section 3(a) hereof.

“Holder” has the meaning set forth in the first paragraph hereof.

“Indebtedness” means any liability or obligation (i) for borrowed money, other than trade payables incurred in the ordinary course of business, (ii) evidenced by bonds, debentures, notes, or other similar instruments, (iii) in respect of letters of credit or other similar instruments (or reimbursement obligations with respect thereto), except letters of credit or other similar instruments issued to secure payment of trade payables or obligations in respect of workers' compensation, unemployment insurance and other social security laws or regulations, all arising in the ordinary course of business, (iv) to pay the deferred purchase price of property or services, except trade payables arising in the ordinary course of business, (v) as lessee under capitalized leases, or (vi) secured by a Lien on any asset of the Company or a Subsidiary, whether or not such obligation is assumed by the Company or such Subsidiary.

“Initial Conversion Price” shall mean initially 85% of the Market Price for the Trading Day immediately preceding the date of any conversion under this Note.

“Interest” has the meaning set forth in first paragraph hereof.

“Investor” has the meaning set forth in the Purchase Agreement.

“Lien” means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any of the foregoing).

“Lowest Fixed Conversion Price” shall mean the lowest price, conversion price or exercise price set by the Company in any equity financing transaction, convertible security, or derivative instrument issued after the date hereof in a “New Transaction.” The term “New Transaction” as used in this Note and in any other Transaction Document, means any financing transaction consummated directly or indirectly by the Company with parties other than the Holder, Investor or their Affiliates involving issuance of Common Stock or other securities convertible into or exercisable for Common Stock. The issuance of equity securities pursuant to the Company’s stockholder approved equity compensation plans outstanding on the date hereof shall not be considered a New Transaction.

“Market Price”, as of a particular date (the “Valuation Date”), shall mean the following with respect to any class of securities: (A) if such security is then listed on a national stock exchange, the Market Price shall be the closing bid price of one share of such security on such exchange on the last Trading Day prior to the Valuation Date, provided that if such security has not traded in the prior ten (10) trading sessions, the Market Price shall be the average closing bid price of such security in the most recent ten (10) trading sessions during which such security has traded; (B) if such security is then included in the Over-the-Counter Bulletin Board, the Market Price shall be the closing sale price of one share of such security on the Over-the-Counter Bulletin Board on the last Trading Day prior to the Valuation Date or, if no such closing sale price is available, the average of the high bid and the low ask price quoted on the Over-the-Counter Bulletin Board as of the end of the last Trading Day prior to the Valuation Date, provided that if such security has not traded in the prior ten (10) trading sessions, the Market Price shall be the average closing price of one share of such security in the most recent ten (10) trading sessions during which such security has traded; or (C) if such security is then included in the “pink sheets,” the Market Price shall be the closing sale price of one share of such security on the “pink sheets” on the last Trading Day prior to the Valuation Date or, if no such closing sale price is available, the average of the high bid and the low ask price quoted on the “pink sheets” as of the end of the last Trading Day prior to the Valuation Date, provided that if such security has not traded in the prior ten (10) trading sessions, the Market Price shall be the average closing price of one share of such security in the most recent ten (10) trading sessions during which such security has traded.

“Note” has the meaning set forth in the first paragraph hereof.

“Original Issue Discount” has the meaning set forth in Section 2(b).

“Permitted Indebtedness” means:

(a) Unsecured Indebtedness that is subordinate in right of payment to the Company Notes existing before the date of the Purchase Agreement and refinancings, renewals and extensions of any such Indebtedness if (i) the average life to maturity thereof is greater than or equal to that of the Indebtedness being refinanced or extended, (ii) if the principal amount thereof or interest payable thereon is not increased, (iii) the ranking thereof is subordinate in right of payment to the Company Notes at least to the same extent as the Indebtedness being refinanced, renewed or extended, and (iv) the terms thereof are not less favorable to the Company or the Subsidiary incurring such Indebtedness than the Indebtedness being refinanced, renewed or extended;

(b) Guaranties by any Subsidiary of any “Permitted Indebtedness” of the Company or another Subsidiary;

(c) Indebtedness of the Company to any wholly owned Subsidiary and Indebtedness of any wholly owned Subsidiary to the Company or another wholly owned Subsidiary which constitutes “Permitted Indebtedness” or which is otherwise subordinate in right of payment to the Company Notes;

(d) Indebtedness incurred in connection with financing insurance premiums payable by the Company and its Subsidiaries in the ordinary course of business;

(e) Other Indebtedness consented to in writing by the Holder;

(f) All indebtedness, including secured indebtedness, outstanding prior to the date of this Note;

(g) The Company or any Subsidiary may offer payees of its outstanding trade payables the right to convert such trade payable into Indebtedness, provided, that any conversion is not at a rate below Market Price and any Common Stock issued under this subsection (g) shall be restricted stock and any registration rights granted shall be junior in right to the registration rights granted Holder; and

(h) Unsecured Indebtedness not otherwise permitted hereunder, not exceeding \$10,000.

“Permitted Liens” means:

(a) Liens existing on the date of the Purchase Agreement;

(b) Liens imposed by law for taxes that are not yet due or are being contested in good faith and for which adequate reserves have been established on the Company’s books and records in accordance with U.S. generally accepted accounting principles, consistently applied;

(c) carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s and other like Liens imposed by law;

(d) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations;

(e) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or materially interfere with the ordinary conduct of business of the Company or any of its Subsidiaries; and

(f) Other Liens consented to in writing by the Holder.

“Person” means an individual, corporation, partnership, limited liability company, trust, business trust, association, joint stock company, joint venture, sole proprietorship, unincorporated organization, governmental authority or any other form of entity not specifically listed herein.

“Prepayment” has the meaning set forth in Section 3(a) hereof.

“Principal” has the meaning set forth in first paragraph hereof.

“Purchase Agreement” shall mean the Purchase Agreement, dated as of March 6, 2009, and as that agreement may be amended from time to time, by and among the Company and the Investor.

“Redemption Date” means the earliest to occur of (i) the date this Note is prepaid and redeemed pursuant to Section 3(a) hereof, (ii) the effective time of a Change of Control or (iii) the date this Note is redeemed pursuant to Section 3(c) hereof.

“Redemption Price” has the meaning set forth in Section 3(b) hereof.

“Stated Maturity Date” has the meaning set forth in the first paragraph hereof.

“Stockholder Approval” has the meaning set forth in the Purchase Agreement.

“Subordinated Indebtedness” shall mean Indebtedness of the Company or any Subsidiary that specifically provides that such Indebtedness is to rank junior to the Company Notes in right of payment and is subordinated by its terms in right of payment to the Company Notes.

“Subsidiary” of any Person means another Person, an amount of the voting securities, other voting ownership or voting partnership interests of which is sufficient to elect at least a majority of its Board of Directors or other governing body (or, if there are no such voting interests, 50% or more of the equity interests of which) is owned directly or indirectly by such first Person.

“Warrants” has the meaning set forth in the Purchase Agreement.

“Warrant Shares” has the meaning set forth in the Purchase Agreement.

## 2. Purchase Agreement.

(a) This Note is one of the several 10% Convertible Notes of the Company to be issued from time to time pursuant to the Purchase Agreement. This Note is subject to the terms and conditions of, and entitled to the benefit of, the provisions of the Purchase Agreement.

(b) The Holder shall purchase the series of Company Notes at a price equal to 90% of the Principal, excluding the Interest, which shall represent a 10% original issue discount (the “Original Issue Discount”). The deduction of the Original Issue Discount shall be made as provided in the Purchase Agreement.

## 3. Prepayment; Change of Control.

(a) The Company may, from time to time at its option, upon ten (10) days' prior written notice to the Holder, prepay all or part of this Note (with all accrued and unpaid interest thereon) prior to the Stated Maturity Date (each, a “Prepayment”); provided that any such Prepayment shall be subject to a premium equal to 125% of the Principal amount being prepaid (the 25% increase over the Principal amount shall be referred to as the “Premium”) which shall be paid to the Holder in immediately available funds simultaneously with such Prepayment. Upon a Change of Control, dissolution or winding up of the Company, the Holder will first receive the Prepayment on the outstanding principal amount of the Company Notes before any Subordinated Indebtedness is paid or distribution is made in respect of capital stock.

(b) In the event that a Change of Control occurs prior to the Stated Maturity Date, the Company shall redeem as of the effective time of the Change of Control all, but not less than all, of the then-outstanding principal amount of this Note and all accrued interest thereon at a cash redemption price equal to the greater of (i) the then-outstanding principal amount of this Note and all accrued interest thereon *plus* the Premium

and (ii) the product of (A) the number of shares of Common Stock into which such Note would have been converted if the Note were converted on the Redemption Date and (B) the Fair Market Value of the consideration per share to be received by holders of Common Stock in connection with a Change of Control as of the Redemption Date (the “Redemption Price”). The Company shall provide written notice to the Holder of this Note of any pending Change of Control pursuant to subsections (ii) and (iii) of the definition of Change of Control, but not less than 15 days prior to the effective date of such Change of Control. On the Redemption Date, the Company shall pay the Redemption Price to the Holder in immediately available funds to an account previously specified in writing by the Holder. The Holder shall not be required to surrender this Note prior to payment of the Redemption Price, and the Note shall be deemed redeemed as of the tender of the Redemption Price. Upon payment in full of the Redemption Price to the Holder as provided in this Section 3, this Note shall be deemed to have been paid in full and shall no longer be outstanding for any purpose.

#### 4. Conversion Rights.

(a) Following the date of the Stockholder Approval to the earlier of the Stated Maturity Date and the Redemption Date and subject to and upon compliance with the provisions of this Note, the Holder shall have the right, at its option at any time, to convert some or all of the Note into such number of fully paid and nonassessable shares of Common Stock at the Conversion Price. The rights of conversion set forth in this Section 4 shall be exercised by the Holder by giving written notice to the Company that the Holder elects to convert a stated amount of this Note into Common Stock, together with a statement of the name or names (with address) in which the certificate or certificates for shares of Common Stock shall be issued.

(b) Promptly after receipt of the written notice referred to in Section 4(a) above, but in no event more than three (3) Trading Days thereafter, the Company shall issue and deliver, or cause to be issued and delivered, to the Holder, registered in such name or names as the Holder may direct in writing, a certificate or certificates for the number of whole shares of Common Stock issuable upon the conversion of such portion of this Note. To the extent permitted by law, such conversion shall be deemed to have been effected, and the Conversion Price shall be determined, as of the close of business on the Trading Day immediately preceding the date on which such written notice shall have been received by the Company and at such time, the rights of the Holder shall cease with respect to the principal amount of the Company Notes being converted, and the Person or Persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares represented thereby. If, however, the Company fails to deliver the full number of shares due upon any conversion within five (5) calendar days following the demand of conversion, the Company shall pay liquidated damages in cash equal to \$1,500 per day for each day the shares are not delivered to the Holder.

(c) No fractional shares shall be issued upon any conversion of this Note into Common Stock. If any fractional share of Common Stock would, except for the provisions of the first sentence of this Section 4(c), be delivered upon such conversion, the Company, in lieu of delivering such fractional share, shall at its option either pay to the Holder an amount in cash equal to the Market Price of such fractional share of Common Stock or round the number of shares up to the nearest whole share.

(d) If the Company shall, at any time or from time to time while this Note is outstanding, pay a dividend or make a distribution on its Common Stock in shares of Common Stock, subdivide its outstanding shares of Common Stock into a greater number of shares or combine its outstanding shares of Common Stock into a smaller number of shares or issue by reclassification of its outstanding shares of Common Stock any shares of its capital stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing corporation), then the Conversion Price in effect immediately prior to the date upon which such change shall become effective, shall be adjusted by the Company so that the Holder thereafter converting this Note shall be entitled to receive the number of shares of Common Stock or other capital stock which the Holder would have received if the Note had been converted immediately prior to such event upon payment of a Conversion Price that has been adjusted to reflect a fair allocation of the economics of such event to the Holder, without regard to any conversion limitation specified in this Section 4. Such adjustments shall be made successively whenever any event listed above shall occur.

(e) If any capital reorganization, reclassification of the capital stock of the Company, consolidation or merger of the Company with another corporation in which the Company is not the survivor, or sale, transfer or other disposition of all or substantially all of the Company's assets to another corporation shall be effected and this Note is not redeemed in connection therewith pursuant to Section 3, then, as a condition of such reorganization, reclassification, consolidation, merger, sale, transfer or other disposition, lawful and adequate provision shall be made whereby the Holder shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions herein specified and in lieu of the shares of Common Stock immediately theretofore issuable upon conversion of this Note such shares of stock, securities or assets as would have been issuable or payable with respect to or in exchange for a number of shares of Common Stock equal to the number of shares of Common Stock immediately theretofore issuable upon conversion of this Note, had such reorganization, reclassification, consolidation, merger, sale, transfer or other disposition not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of the Holder to the end that the provisions hereof (including, without limitation, provision for adjustment of the Conversion Price) shall thereafter be applicable, as nearly equivalent as may be practicable in relation to any shares of stock, securities or assets thereafter deliverable upon the conversion hereof. The Company shall not effect any such consolidation, merger, sale, transfer or other disposition unless prior to or simultaneously with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger, or the corporation purchasing or otherwise acquiring such assets or other appropriate corporation or entity shall assume the obligation to deliver to the Holder, at the last address of the Holder appearing on the books of the Company, such shares of stock, securities or assets as, in accordance with the foregoing provisions, the Holder may be entitled to purchase, without regard to any conversion limitation specified in Section 4, and the other obligations under this Note. The provisions of this paragraph (e) shall similarly apply to successive reorganizations, reclassifications, consolidations, mergers, sales, transfers or other dispositions.

(f) In case the Company shall fix a payment date for the making of a distribution to all holders of Common Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing corporation) of evidences of

indebtedness or assets (other than cash dividends or cash distributions payable out of consolidated earnings or earned surplus or dividends or distributions referred to in Section 4(d)), or subscription rights or Company Notes, the Conversion Price to be in effect after such payment date shall be determined by multiplying the Conversion Price in effect immediately prior to such payment date by a fraction, the numerator of which shall be the total number of shares of Common Stock outstanding multiplied by the Market Price of Common Stock immediately prior to such payment date, less the fair market value (as determined by the Board in good faith) of said assets or evidences of indebtedness so distributed, or of such subscription rights or Company Notes, and the denominator of which shall be the total number of shares of Common Stock outstanding multiplied by such Market Price immediately prior to such payment date. Such adjustment shall be made successively whenever such a payment date is fixed.

(g) An adjustment to the Conversion Price shall become effective immediately after the payment date in the case of each dividend or distribution and immediately after the effective date of each other event which requires an adjustment.

(h) In the event that, as a result of an adjustment made pursuant to this Section 4, the Holder shall become entitled to receive any shares of capital stock of the Company other than shares of Common Stock, the number of such other shares so receivable upon conversion of this Note shall be subject thereafter to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions contained in this Note.

(i) In case at any time:

(A) the Company shall declare any dividend upon its Common Stock or any other class or series of capital stock of the Company payable in cash or stock or make any other distribution to the holders of its Common Stock or any such other class or series of capital stock;

(B) the Company shall offer for subscription *pro rata* to the holders of its Common Stock or any other class or series of capital stock of the Company any additional shares of stock of any class or other rights; or

(C) there shall be any capital reorganization or reclassification of the capital stock of the Company, any acquisition or a liquidation, dissolution or winding up of the Company;

then, in any one or more of said cases, the Company shall give, by delivery in person or by certified or registered mail, return receipt requested, addressed to the Holder at the address of such Holder as shown on the books of the Company, (a) at least 10 calendar days prior written notice of the date on which the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights or for determining rights to vote in respect of any event set forth in clause (C) of this Section 4(i) and (b) in the case of any event set forth in clause (C) of this Section 4(i), at least 20 calendar days prior written notice of the date when the same shall take place. Such notice in accordance with the foregoing clause (a) shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holders of Common Stock or such other class or series of capital stock shall be entitled thereto and such notice in accordance with the foregoing clause (b) shall also specify the date on which the holders of Common Stock and such other series or class of capital stock shall be entitled to exchange their Common Stock and other stock for securities or other property deliverable upon consummation of the applicable event set forth in clause (C) of this Section 4(i).

(j) Upon any adjustment of the Conversion Price, then and in each such case the Company shall give prompt written notice thereof, addressed to the Holder at the address of such Holder as shown on the books of the Company, which notice shall state the Conversion Price resulting from such adjustment and setting forth in reasonable detail the method upon which such calculation is based.

(k) Subject to the Stockholder Approval, the Company shall at all times reserve and keep available out of its authorized Common Stock, solely for the purpose of issuance upon conversion of this Note as herein provided, no less than 200% of the number of shares of Common Stock as shall then be issuable upon the conversion of this Note, subject to a maximum of the total number of shares of Common Stock then authorized by the Company's Certificate of Incorporation, provided, however, that if there is not a sufficient number of authorized shares for the Investor to Convert then that will be deemed an Event of Default under Section 6 hereof. The Company covenants that all shares of Common Stock which shall be so issued shall be duly and validly issued and fully paid and nonassessable, and free from all taxes, liens and charges with respect to the issue thereof, and, without limiting the generality of the foregoing, and that the Company will from time to time take all such action as may be requisite to assure that the par value per share of the Common Stock is at all times equal to or less than the Conversion Price in effect at the time. The Company shall take all such action as may be necessary to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any requirement of any national securities exchange or trading market upon which the Common Stock may be listed. The Company shall not take any action which could reasonably be foreseen to result in any adjustment of the Conversion Price if the total number of shares of Common Stock issued and issuable after such action upon conversion of this Note would exceed the total number of shares of Common Stock then authorized by the Company's Certificate of Incorporation.

(l) The issuance of certificates for shares of Common Stock upon conversion of this Note shall be made without charge to the holders thereof for any issuance tax in respect thereof, provided that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the Holder.

(m) Subject to Section 9 hereof, the Company will not at any time close its transfer books against the transfer, as applicable, of this Note or of any shares of Common Stock issued or issuable upon the conversion of this Note in any manner which interferes with the timely

conversion of this Note, except as may otherwise be required to comply with applicable securities laws.

(n) To the extent permitted by applicable law and the listing requirements of any stock exchange or trading market on which the Common Stock is then listed, the Company from time to time may decrease the Conversion Price by any amount for any period of time if the period is at least twenty (20) days, the decrease is irrevocable during the period and the Board shall have made a determination that such decrease would be in the best interests of the Company, which determination shall be conclusive. Whenever the Conversion Price is decreased pursuant to the preceding sentence, the Company shall provide written notice thereof to the Holder at least fifteen (15) days prior to the date the decreased Conversion Price takes effect, and such notice shall state the decreased Conversion Price and the period during which it will be in effect.

(o) Notwithstanding anything to the contrary contained herein, no conversion of the Note or any portion hereof into shares of Common Stock or Common Stock Equivalents shall be consummated unless and until the Stockholder Approval has been obtained.

(p) Notwithstanding the provisions of this Note, in no event (except (i) as specifically provided in the Note as an exception to this provision, (ii) during the forty-five (45) day period prior to the Maturity Date, or (iii) while there is outstanding a tender offer for any or all of the shares of the Company's Common Stock) shall the Holder be entitled to convert this Note, or the Company have the obligation or option to issue shares upon such conversion or in lieu of cash payments hereunder, to the extent that, after such conversion or issuance the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and its affiliates, and (2) the number of shares of Common Stock issuable upon the conversion of the Note with respect to which the determination of the proviso is being made, would result in beneficial ownership by the Holder and its affiliates in excess of 4.99% of the then outstanding shares of Common Stock (after taking into account the shares to be issued to the Holder upon such conversion); provided, however, that upon the Holder providing the Company with sixty-one (61) days notice that such Holder wishes to waive this restriction with respect to any or all shares of Common Stock issuable upon a conversion, this 4.99% restriction shall be of no force or effect with regard to those shares referenced in any waiver. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended.

## 5. Covenants.

(a) So long as any amount due under this Note is outstanding and until payment in full of all amounts payable by the Company hereunder, and unless the Holder shall otherwise consent in writing:

(i) The Company shall and shall cause each of its Subsidiaries to (A) carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducting, and (B) do all things necessary to remain duly organized, validly existing, and in good standing as a domestic corporation under the laws of its state of incorporation.

(ii) The Company shall timely file with the Commission all annual and quarterly reports, information, documents and other reports as are specified in Sections 13 and 15(d) of the 1934 Act and applicable to a U.S. corporation, or if the Commission does not permit such filings, the Company will provide such reports, information, documents and other reports to the Investor.

(iii) The Company shall as promptly as reasonably practicable notify the Holder of the occurrence of any Event of Default or any event which, with the giving of notice, the lapse of time or both would constitute an Event of Default, which notice shall include a written statement as to such occurrence, specifying the nature thereof and the action (if any) which is proposed to be taken with respect thereto.

(b) So long as any amount due under this Note is outstanding and until payment in full of all amounts payable by the Company hereunder, and unless the Holder shall otherwise consent in writing:

(i) The Company shall not and shall cause each Subsidiary not to create, incur, guarantee, issue, assume or in any manner become liable in respect of any Indebtedness after the date hereof, other than Permitted Indebtedness; provided that the Company or any Subsidiary may offer payees of its outstanding trade payables the right to convert such trade payable into Indebtedness so long as any conversion is not at a conversion rate below Market Price and any Common Stock issued pursuant to such conversion shall be restricted stock and any registration rights granted shall be junior in right to the registration rights granted Holder.

(ii) The Company shall not and shall cause each Subsidiary not to create, incur, assume or suffer to exist any Lien upon any of its property, whether now owned or hereafter acquired other than Permitted Liens. The Company shall not, and shall cause each Subsidiary not to, be bound by any agreement which limits the ability of the Company or any Subsidiary to grant Liens other than (A) restrictions contained in agreements existing on the date hereof, or any refinancing thereof (so long as such restrictions are not expanded), (B) Permitted Liens and (C) restrictions contained in leases (whether capitalized or not) and agreements now or hereafter in effect.

(iii) The Company shall not and shall cause each Subsidiary not to, directly or indirectly, (A) make any investment into a new business or other unaffiliated entity or (B) engage in any business other than the primary business of the Company.

(iv) The Company shall not, and shall cause each of its Subsidiaries not to, directly or indirectly, declare or pay any cash dividends on account of any shares of any class or series of its capital stock now or hereafter outstanding, or set aside or otherwise deposit or invest any sums for such purpose, or redeem, retire, defease, purchase or otherwise acquire any shares of any class of its capital stock (or set aside or

otherwise deposit or invest any sums for such purpose) for any consideration or apply or set apart any sum, or make any other distribution (by reduction of capital or otherwise) in respect of any such shares or pay any interest, premium if any, or principal of any Indebtedness (other than the Permitted Indebtedness) or redeem, retire, defease, repurchase or otherwise acquire any Indebtedness (other than the Permitted Indebtedness) (or set aside or otherwise deposit or invest any sums for such purpose) for any consideration or apply or set apart any sum, or make any other payment in respect thereof or agree to do any of the foregoing.

(v) The Company shall not and shall cause each Subsidiary not to amend its bylaws, certificate of incorporation or other charter document in a manner that would materially adversely effect the rights of the Holder of this Note.

(vi) The Company shall perform, observe and comply with the terms of the Purchase Agreement.

(vii) The Company shall not issue any shares of Common Stock or Common Stock Equivalents at less than the Market Price in effect at the time of such issuance. The foregoing covenant shall not be deemed to prevent the issuance of equity securities pursuant to the Company's stockholder approved equity compensation plans outstanding on the date hereof, provided that any issuance under such plans are made in full compliance with such plans.

(c) For the avoidance of doubt, the foregoing restrictions contained in this Section 5 shall also apply (i) to the Company's Subsidiaries and (ii) to any agreement, understanding or arrangement to do any of the foregoing.

## 6. Event of Default.

(a) An "Event of Default" shall exist if any of the following conditions or events shall occur and be continuing:

(i) the Company defaults in the payment of any principal on any Note when the same becomes due and payable, whether at maturity or otherwise; or

(ii) the Company defaults in the payment of any interest on any Note when the same becomes due and payable; or

(iii) the Company defaults in the performance of or compliance with any material term contained herein or in any Transaction Document, provided that the Company shall be provided 10 days prior notice of such default or non-compliance during which it may remedy or cure such default or non-compliance without an Event of Default occurring; or

(iv) any representation or warranty made by or on behalf of the Company or any Subsidiary or by any officer of the Company or a Subsidiary in this Note or any Transaction Document, proves to have been false or incorrect in any material respect on the date as of which made; or

(v) (a) the Company or any Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal or premium or make-whole amount or interest on any indebtedness that is outstanding beyond any period of grace provided with respect thereto, or (b) the Company or any Subsidiary is in default in the performance of or compliance with any term of any evidence of any indebtedness that is outstanding or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such indebtedness has become, or has been declared (or one or more Persons are entitled to declare such indebtedness to be), due and payable before its stated maturity or before its regularly scheduled dates of payment, or (c) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of indebtedness to convert such indebtedness into equity interests), (A) the Company or any Subsidiary has become obligated to purchase or repay indebtedness before its regular maturity or before its regularly scheduled dates of payment, or (B) one or more Persons have the right to require the Company or any Subsidiary so to purchase or repay such indebtedness; or

(vi) the Company or any Subsidiary (a) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (b) makes an assignment for the benefit of its creditors, (c) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (d) is adjudicated as insolvent or to be liquidated, or (e) takes corporate action for the purpose of any of the foregoing; or

(v) a court or governmental authority of competent jurisdiction enters an order appointing, without consent by the Company or any Subsidiary, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any Subsidiary, or any such petition shall be filed against the Company or any Subsidiary; or

(vi) a final judgment or judgments for the payment of money are rendered against one or more of the Company and the Subsidiaries, which judgments are not, within sixty (60) days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within sixty (60) days after the expiration of such stay; or

(vii) the Company or any Subsidiary defaults in the performance of or compliance with any material term or covenant contained in any Transaction Document, or any Transaction Document ceases to be in full force and effect as a result of acts taken by the Company or any Subsidiary, or is declared to be null and void in whole or in material part by a court or other governmental or regulatory authority having jurisdiction or the validity or enforceability thereof shall be contested by any of the Company or any Subsidiary or any of them renounces any of the same or denies that it has any or further liability thereunder; provided that the Company shall be provided 10 days prior notice of any default or non-compliance subject to this section during which it may remedy or cure such default or non-compliance; or

(viii) the Company does not have a sufficient number of shares of Common Stock authorized and unissued to permit the Investor to convert this Note or any other convertible security owned either pursuant to this transaction or in a previous transaction into shares of Common Stock in accordance with the terms of such securities; or

(ix) any vendor or similar creditor of the Company forecloses on or freezes any material assets of the Company which leads to the Company being forced to suspend its business activity; or

(x) the failure of the Company to register the Registrable Securities (as defined in the Registration Rights Agreement) pursuant to the terms of the Registration Rights Agreement.

(b) Acceleration. If an Event of Default has occurred, all the Notes then outstanding shall automatically become immediately due and payable. Upon any Notes becoming due and payable under this Section 6, whether automatically or by declaration, such Notes will forthwith mature and the entire unpaid principal amount of such Notes, plus all accrued and unpaid interest thereon shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived.

(c) Other Remedies. If any Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 6, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

(d) Rescission. At any time after any Notes have been declared due and payable pursuant to Section 6, the holders of a majority in principal amount of the Notes then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences if (i) the Company has paid all overdue interest on the Notes and all principal of any Notes that are due and payable and are unpaid other than by reason of such declaration, (ii) all Events of Default, have been cured or have been waived, and (iii) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 6 (d) will extend to or affect any subsequent Event of Default or impair any right consequent thereon.

(e) No Waivers or Election of Remedies, Expenses, Etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Note or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise.

(f) Default Interest. If an Event of Default has occurred and is continuing, any amount of principal on the Notes then outstanding shall bear interest at the rate of eighteen percent (18%) per annum and shall be paid to the Holder in cash as liquidated damages and not as a penalty, after and Event of Default has occurred, until the earlier of (i) the Notes, including accrued but unpaid interest thereon, are paid in full and (ii) such Event of Default, if curable under the terms of this Note, has been cured. Such Default Interest shall be paid to the holders of such Notes by the fifth (5<sup>th</sup>) day of the month following the month in which it has accrued or, if not so paid, shall be added to the principal amount of such holder's Notes, in which event interest shall accrue thereon in accordance with the terms of the Notes.

7. No Waiver. No delay or omission on the part of the Holder in exercising any right under this Note shall operate as a waiver of such right or of any other right of the Holder, nor shall any delay, omission or waiver on any one occasion be deemed a bar to or waiver of the same or any other right on any future occasion.

8. Amendments in Writing. Any term of this Note may be amended or waived upon the written consent of the Company and the Holder.

9. Transfers. This Note is transferable and assignable, in whole or in part and in accordance with the applicable provisions of the Purchase Agreement, to any Person to whom such transfer is permissible under the Purchase Agreement and applicable law. In addition, after delivery of an indemnity in form and substance reasonably satisfactory to the Company, the Company also agrees to promptly issue a replacement Note if this Note is lost, stolen, mutilated or destroyed.

10. Waivers. The Company hereby forever waives presentment, demand, presentment for payment, protest, notice of protest, notice of dishonor of this Note and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this Note, other than notices expressly required under the terms hereof or of the other Transaction Documents.

11. Waiver of Jury Trial. **THE COMPANY HEREBY WAIVES ITS RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS NOTE OR ANY CONTEMPLATED TRANSACTION, INCLUDING**

**CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THE COMPANY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.**

12. Governing Law; Consent to Jurisdiction. This Note shall be governed by and construed under the law of the State of New York without regard to any law or principles that would make this choice of law provision invalid. The Company and, by accepting this Note, the Holder, each irrevocably submits to the exclusive jurisdiction of the courts of the State of New York located in New York County and the United States District Court for the Southern District of New York for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Note and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Note. The Company and, by accepting this Note, the Holder, each irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. The Company and, by accepting this Note, the Holder, each irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

13. Costs. If action is instituted to collect on this Note, the Company promises to pay all costs and expenses, including reasonable attorney's fees, incurred in connection with such action.

14. Notices. Unless otherwise provided, any notice required or permitted under this Note shall be given in writing and shall be deemed effectively given as hereinafter described (i) if given by personal delivery, then such notice shall be deemed given upon such delivery, (ii) if given by telex or telecopier, then such notice shall be deemed given upon receipt of confirmation of complete transmittal, (iii) if given by mail, then such notice shall be deemed given upon the earlier of (A) receipt of such notice by the recipient or (B) three days after such notice is deposited in first class mail, postage prepaid, and (iv) if given by an internationally recognized overnight air courier, then such notice shall be deemed given one Business Day after delivery to such carrier. All notices shall be addressed to the party to be notified at the address as follows, or at such other address as such party may designate by ten days' advance written notice to the other party:

If to the Company:

Converted Organics, Inc.  
7A Commercial Wharf West  
Boston, Massachusetts 02110  
Attention: Edward J. Gildea  
Phone: (617) 624-0111  
Fax: (617) 624-0333

with a copy to:

Cozen O'Connor  
The Army and Navy Building  
1627 I Street, NW  
Suite 1100  
Washington, DC 20006  
Attn: Ralph V. De Martino, Esq.  
Phone: (202) 912-4830  
Fax: (202) 912-4830

If to the Investor:

Professional Offshore Opportunity Fund, Ltd.  
1400 Old Country Road, Suite 206  
Westbury, New York 11590  
Attention: Howard Berger  
Phone: (516) 228-0070  
Fax: (516) 228-8083

with a copy to (which shall not constitute notice):

Anslow & Jaclin, LLP  
195 Route 9 South, Suite 204  
Manalapan, New Jersey 07726  
Attention:

Joseph M. Lucosky, Esq.  
Eric M. Stein, Esq.

Phone: (732) 409-1212  
Fax: (732) 577-1188

15. Successors and Assigns. This Note shall be binding upon the successors or assigns of the Company and shall inure to the benefit of the permitted successors and assigns of the Holder.

16. Counterparts. This Note may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument.

17. Facsimile Signature. In the event that any signature is delivered by facsimile transmission, PDF, electronic signature or other similar electronic means, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such signature page were an original thereof.

18. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Note and the consummation of the transactions contemplated hereby.

19. No Strict Construction. The language used in this Note will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

20. Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Note will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Note, that the Holder shall be entitled, in addition to all other available remedies at law or in equity, to an injunction or injunctions restraining, preventing or curing any breach of this Note and to enforce specifically the terms and provisions hereof, without the necessity of showing economic loss and without any bond or other security being required.

21. Waiver of Stay, Extension or Usury Laws. The Company covenants that it shall not at any time insist upon, or plead, or in any manner whatsoever claim, and shall resist any and all efforts to be compelled to take the benefit or advantage of, any stay or extension law or any usury law or other law which would prohibit or forgive the Company from paying all or any portion of the principal of or interest on the Notes as contemplated herein and therein, wherever enacted, now or at any time hereafter in force, or which may effect the covenants or the performance of this Note; and the Company hereby expressly waives all benefit or advantage of any such law and covenants that it shall not hinder, delay or impede the execution of power herein granted to the holders of the Notes, but shall suffer and permit the execution of every such power as though no such law had been enacted. All agreements between the Company and holders of the Notes, whether now existing or hereafter arising and whether written or oral, are hereby limited so that in no contingency, whether by reason or demand or acceleration of the final maturity date of the Notes or prepayment or otherwise, shall the interest contracted for (or any original issue discount that would be determined to be interest), charged, received, paid or agreed to be paid to holders exceed the maximum amount permissible under the laws of the State of New York (hereinafter the "Applicable Law"). If, from any circumstances whatsoever, interest (or any original issue discount that would be determined to be interest) would otherwise be payable to any holder of the Notes in excess of the maximum amount permissible under Applicable Law, the interest payable to such holder shall be reduced to the maximum amount permissible under Applicable Law, and if from any circumstances such holder shall ever receive anything deemed interest by the Applicable Law in excess of the maximum amount permissible under the Applicable Law, an amount equal to the excessive interest shall be applied to the reduction of the principal hereof and not to the payment of interest, or if such excessive amount of interest exceeds the unpaid principal balance of principal hereof, such excess shall be refunded to the Company as applicable. All interest paid or agreed to be paid to the holders of the Notes shall, to the extent permitted by Applicable Law, be amortized, prorated, allocated and spread throughout full period (including any renewal or extension) until payment in full of the principal so that the interest hereon for such full period shall not exceed the maximum amount permissible under the Applicable Law.

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[SIGNATURE PAGE TO CONVERTIBLE NOTE]

IN WITNESS WHEREOF, the Company has caused this 10% Convertible Note to be signed in its name effective as of the date first above written.

CONVERTED ORGANICS, INC.

By: \_\_\_\_

Name: Edward J. Gildea  
Title: President and Chief Executive Officer

## EXHIBIT 10.3

### REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT dated as of the 6th day of March, 2009 (this "Agreement") by and between CONVERTED ORGANICS, INC., a Delaware corporation (the "Corporation"), and PROFESSIONAL OFFSHORE OPPORTUNITY FUND, LTD. (the "Investor").

#### W I T N E S S E T H :

WHEREAS, the Investor owns or has the right to purchase or otherwise acquire shares of the Common Stock (as hereinafter defined) of the Corporation; and

WHEREAS, the Corporation and the Investor deem it to be in their respective best interest to set forth the rights of the Investor in connection with the registration of certain shares of Common Stock under applicable securities laws; and

WHEREAS, the execution and delivery of this Agreement is a condition to the Securities Purchase Agreement entered into by the Investor and the Corporation on the date hereof;

NOW, THEREFORE, in consideration of the premises and mutual covenants and obligations hereinafter set forth, the Corporation and the Investor hereby agree as follows:

#### Section 1. Definitions.

As used in this Agreement the following terms shall have the following meanings: <sup>1</sup>

(a) "Class B Warrant Market Value" means the average closing bid price of the Class B Warrant for the period which the Corporation has failed to comply with this Registration Rights Agreement.

(b) "Closing Date" means March 2, 2009, or such other date when the Securities Purchase Agreement and other Transaction Documents were executed by the Corporation and the Investor.

(c) "Commission" means the Securities and Exchange Commission or any other Federal Agency at the time administering the Securities Act.

(d) "Common Stock" means the common stock, par value \$0.0001, of the Corporation.

(e) "Convertible Note" means the Convertible Note entered into between the Corporation and Professional Offshore Opportunity Fund, Ltd., and dated the date hereof.

(f) "Exchange Act" means the Securities Exchange Act of 1934 or any successor Federal statute, and the rules and regulations of the Commission promulgated thereunder, all as the same shall be in effect from time to time.

(g) "Investor" means Professional Offshore Opportunity Fund, Ltd., and includes any successor to, or assignee or transferee of, any such person who or which agrees in writing to be treated as an Investor hereunder and to be bound by the terms and comply with all applicable provisions hereof.

(h) "Other Shares" means at any time those shares of Common Stock which do not constitute Primary Shares or Registrable Securities.

(i) "Primary Shares" means at any time the authorized but unissued shares of Common Stock held by the Corporation in its treasury.

(j) "Registrable Securities" means (i) all shares of Common Stock issuable upon conversion in full of the Convertible Note issued to the Investor upon Stockholder Approval (the "Conversion Shares"); (ii) all shares of Common Stock issuable upon exercise of Warrants issued to the Investor as of the date hereof (the "Warrant Shares"), (iii) the Warrants and (iv) any securities issued or issuable upon any future conversion, stock split, dividend or other distribution, recapitalization or similar event with respect to the foregoing.

(k) “Registration Statement” means any registration statement of the Corporation relating to the registration for resale of Registrable Securities (in an amount permissible under the Rule 415 Interpretive Position) that is filed pursuant to the provisions of this Agreement.

(l) “Rule 144” means Rule 144 promulgated under the Securities Act or any successor rule thereto.

(m) “Securities Act” means the Securities Act of 1933 or any successor Federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect from time to time.

(n) “Securities Purchase Agreement” shall have the meaning set forth in the Recitals.

(o) “Warrants” means the Class B Warrants (trading under symbol COINZ) issued pursuant to the Securities Purchase Agreement.

## Section 2. Registration.

(a) Mandatory Registration. Not later than ten (10) calendar days following the date of the Corporation obtaining Stockholder Approval, the Corporation shall prepare and file with the Commission a Registration Statement or Registration Statements (as necessary) on Form S-1 (or, if such form is unavailable for such a registration, on such other form as is available for such a registration), covering the resale of all Registrable Securities, which Registration Statement(s) shall state that, in accordance with Rule 416 promulgated under the 1933 Act, such Registration Statement also covers such indeterminate number of additional shares of Common Stock as may become issuable upon future conversions, stock splits, stock dividends or similar transactions.

Notwithstanding anything to the contrary herein, the Corporation and the Investor intend that the number of shares to be registered shall be pursuant to Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule (collectively “Rule 415”) and any interpretative positions of Rule 415 by the Commission. If the number of shares registered in the Registration Statement is less than the Registrable Securities, the balance will be registered in a second registration statement and any necessary subsequent registration statements as soon as permitted by securities laws. And, in the event that any Registrable Securities are excluded from the Registration Statement due to the interpretation of Rule 415, the Registrable Securities included in each registration statement shall be allocated at the discretion of the Investor.

(b) The Corporation shall have the Registration Statement filed with the Commission before the expiration of ten (10) calendar days following Stockholder Approval (the “Filing Date”). If the Registration Statement covering the Registrable Securities required to be filed by the Corporation pursuant to Section 2(a) hereof is not filed on or before the Filing Date, then the Corporation shall pay the Investor the sum of two percent (2%) of the face amount of each of the Convertible Notes and two percent (2%) of the Class B Warrant Market Value of the Warrants as liquidated damages, and not as a penalty, for each thirty (30) calendar day period, pro rata, following the Filing Date until the Registration Statement is filed. The Corporation shall pay such liquidated damages in cash.

Notwithstanding the foregoing, the amounts payable by the Corporation pursuant to this Section shall not be payable to the extent any delay in the filing of the Registration Statement occurs because of an act of, or a failure to act or to act timely by the Investor. The damages set forth in this Section shall continue until the obligation is fulfilled and shall be paid within three (3) business days after each thirty (30) day period, or portion thereof, until the Registration Statement is filed. Failure of the Corporation to make payment within said three (3) business days shall be considered a default.

The Corporation acknowledges that its failure to have the Registration Statement filed on or prior to the Filing Date will cause the Investor to suffer damages in an amount that will be difficult to ascertain. Accordingly, the parties agree that it is appropriate to include in this Agreement a provision for liquidated damages. The parties acknowledge and agree that the liquidated damages provision set forth in this section represents the parties’ good faith effort to quantify such damages and, as such, agree that the form and amount of such liquidated damages are reasonable and will not constitute a penalty. The payment of liquidated damages shall not relieve the Corporation from its obligations to register the Common Stock and deliver the Common Stock pursuant to the terms of this Agreement and the Subscription Agreement.

Notwithstanding the foregoing provisions of Section 2(b) providing for liquidated damages under certain circumstances, as the sole exception to the requirement to pay such damages, in the event the Commission disallows registration of the Registrable Securities pursuant to Rule 415 under the Securities Act, no such damages shall be payable so long as the Corporation then uses its best efforts to register the maximum number of Registrable Securities in such registration statements as the Commission

permits and uses its best efforts thereafter to register in appropriate registration statements any Registrable Securities not included in such registration statements.

The Corporation shall have a Registration Statement be declared effective by the Commission on or prior to ninety (90) days after the Filing Date. Following notification that the Commission has no further comments on the Registration Statement, the Corporation shall have five (5) days to have the Registration Statement declared effective. If the Registration Statement covering the Registrable Securities required to be filed by the Corporation pursuant to Section 2(a) hereof is not declared effective within ninety (90) days following the Filing Date, then the Corporation shall pay the Investor the sum of two percent (2%) of the face amount of Convertible Note and two percent (2%) of the Class B Warrant Market Value of the Warrants, as liquidated damages and not as a penalty for each thirty (30) calendar day period, *pro rata*, following the ninety (90) calendar day period after the Filing Date, until the Registration Statement is declared effective, and two percent (2%) for each successive thirty (30) calendar day period thereafter. The Corporation shall pay such liquidated damages in cash.

If the Registration Statement covering the Registrable Securities required to be filed by the Corporation pursuant to Section 2(a) hereof is declared effective, but after the effective date the Investor's right to sell is suspended due to the Registration Statement being no longer effective, then the Corporation shall pay the Investor the sum of two percent (2%) of the face amount of the Convertible Note and two percent (2%) of the Class B Warrant Market Value of the Warrants for each thirty (30) calendar day period, *pro rata*, following the suspension until such suspension ceases.

Notwithstanding the foregoing, the amounts payable by the Corporation pursuant to this Section shall not be payable to the extent any delay in the effectiveness of the Registration Statement occurs because of an act of or a failure to act or to act timely by the Investor. The damages set forth in this Section shall continue until the obligation is fulfilled and shall be paid within three (3) business days after each thirty (30) day period, or portion thereof, until the Registration Statement is declared effective or such suspension is released. Failure of the Corporation to make payment within said three (3) business days shall be considered a default.

The Corporation acknowledges that its failure to have the Registration Statement declared effective within one hundred and twenty (120) days following the Closing Date or to permit the suspension of the effectiveness of the Registration Statement will cause the Investor to suffer damages in an amount that will be difficult to ascertain. Accordingly, the parties agree that it is appropriate to include in this Agreement a provision for liquidated damages. The parties acknowledge and agree that the liquidated damages provision set forth in this section represents the parties' good faith effort to quantify such damages and, as such, agree that the form and amount of such liquidated damages are reasonable and will not constitute a penalty. The payment of liquidated damages shall not relieve the Corporation from its obligations to register the Common Stock and deliver the Common Stock pursuant to the terms of this Agreement and the Securities Purchase Agreement.

(c) The Corporation agrees not to include any other securities in this Registration Statement except securities holding currently effective resale or piggyback registration rights as disclosed in the Securities Purchase Agreement between the Corporation and the Investor or as disclosed in filings that the Corporation has made with the Commission as of the date hereof without Investor's prior written consent. Furthermore, the Corporation agrees that it will not file any other Registration Statement for other securities (other than those for the equity credit line financing, strategic partners or in connection with a merger, acquisition or other transaction that is not a New Transaction, as such term is defined in the Convertible Note), until ninety (90) calendar days after the Registration Statement for the Registrable Securities is declared effective.

(d) Piggyback Registration. Without limiting the obligations set forth in Section 2(a) through and including 2(d) of this Agreement, until the sooner of the date whereby an exemption from registration is available under Rule 144 (without restrictions) of the rules and regulations of the Securities and Exchange Commission, as amended, promulgated pursuant to the Securities Act or the date that all of the Conversion Shares have been sold if the Corporation at any time proposes for any reason to register Primary Shares, Registrable Securities or Other Shares under the Securities Act (other than on Form S-4 or Form S-8 promulgated under the Securities Act or any successor forms thereto), it shall give written notice to the Investor of its intention so to register such Primary Shares, Registrable Securities or Other Shares at least 30 days before the initial filing of such registration statement and, upon the written request, delivered to the Corporation within 20 days after delivery of any such notice by the Corporation, of the Investor to include in such registration Registrable Securities (which request shall specify the number of Registrable Securities proposed to be included in such registration and shall state that the Investor desires to sell such Registrable Securities in the public securities markets), the Corporation shall cause all such Registrable Securities to be included in such registration on the same terms and conditions as the securities otherwise being sold in such registration; provided, however, that if the managing underwriter advises the Corporation that the inclusion of all Registrable Securities requested to be included in such registration would interfere with the successful marketing (including pricing) of the Primary Shares, Registrable Securities or Other Shares proposed to be registered by the Corporation, then the number of Primary Shares, Registrable Securities and Other Shares proposed to be included in such registration shall be included in the following order:

(i) if the Corporation proposes to register Primary Shares, or Primary Shares and Other Shares:

First, the Primary Shares; and

Second, the Registrable Securities and Other Shares requested to be included in such registration (or, if necessary, such Registrable Securities and Other Shares pro rata among the holders thereof based upon the number of Registrable Securities and Other Shares requested to be registered by each such holder); or

(ii) if the Corporation proposes to register Other Shares pursuant to a request for registration by the holders of such Other Shares (other than pursuant to Section 2 hereof):

First, the Other Shares held by the parties demanding such registration; and

Second, the Registrable Securities and Other Shares requested to be registered by the holders hereof (or, if necessary, pro rata among the holders thereof based on the number of Registrable Securities and Other Shares requested to be registered by such holders).

### Section 3. Preparation and Filing.

If and whenever the Corporation is under an obligation pursuant to the provisions of this Agreement to effect the registration of any Registrable Securities, the Corporation shall as expeditiously as practicable:

(a) prepare and file with the Commission a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective and, upon the request of the holders of a majority of the Registrable Securities being registered thereunder, keep such registration statement effective for a period of up to twelve months or until the distribution contemplated in the registration statement has been completed; provided, however, that (i) such twelve month period shall be extended for a period of time equal to the period the holders of Registrable Securities refrain from selling any securities included in such registration at the request of an underwriter of Common Stock (or other securities) of the Corporation; and (ii) in the case of any registration of Registrable Securities on Form S-3 which are intended to be offered on a continuous or delayed basis, such twelve month period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities are sold, provided that Rule 415, or any successor rule under the Securities Act, permits an offering on a continuous or delayed basis; and provided further that applicable rules under the Securities Act governing the obligation to file a post-effective amendment permit (in lieu of filing a post-effective amendment which (I) includes any prospectus required by Section 10(a)(3) of the Securities Act or (II) reflects facts or events representing a material or fundamental change in the information set forth in the registration statement) the incorporation by reference, in the registration statement, of information required to be included in (I) and (II) above to be contained in periodic reports filed pursuant to Section 13 or 15(d) of the Exchange Act.

(b) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(c) use its best efforts to register or qualify such Registrable Securities under such other securities or blue sky laws of such jurisdictions as the Investor reasonably requests and do any and all other acts and things which may be reasonably necessary or advisable to enable the Investor to consummate the disposition in such jurisdictions of the Registrable Securities owned by the Investor; provided, however, that the Corporation will not be required to qualify generally to do business, subject itself to general taxation or consent to general service of process in any jurisdiction where it would not otherwise be required to do so but for this paragraph (e) or to provide any material undertaking or make any changes in its By-laws or Certificate of Incorporation which the Board of Directors determines to be contrary to the best interests of the Corporation or to modify any of its contractual relationships then existing;

(d) furnish, upon request, to the Investor holding such Registrable Securities such number of copies of a summary prospectus, if any, or other prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as the Investor may reasonably request in order to facilitate the public sale or other disposition of such Registrable Securities;

(e) without limiting subsection (c) above, use its best efforts to cause such Registrable Securities to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of the Corporation to enable the Investor holding such Registrable Securities to consummate the disposition of such Registrable Securities;

(f) notify the Investor holding such Registrable Securities on a timely basis at any time when a prospectus relating to such Registrable Securities is required to be delivered under the Securities Act within the appropriate period mentioned in subparagraph (a) of this Section 3, of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing and, at the request of the Investor, prepare and furnish to the Investor a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the offerees of such shares, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

(g) subject to the execution of confidentiality agreements in form and substance satisfactory to the Corporation, make available upon reasonable notice and during normal business hours, for inspection by the Investor holding such Registrable Securities, any underwriter participating in any disposition pursuant to such registration statement and any attorney, accountant or other agent retained by the Investor or underwriter (collectively, the "Inspectors"), all pertinent financial and other records, pertinent corporate documents and properties of the Corporation (collectively, the "Records"), as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Corporation's officers, directors and employees to supply all information (together with the Records, the "Information") reasonably requested by any such Inspector in connection with such registration statement. Any of the Information which the Corporation determines in good faith to be confidential and of which determination the Inspectors are so notified, shall not be disclosed by the Inspectors unless (i) the disclosure of such Information is necessary to avoid or correct a misstatement or an omission in the registration statement, (ii) the release of such Information is ordered pursuant to a subpoena or other order from a court of competent jurisdiction or (iii) such Information has been made generally available to the public; the Investor agree that they will, upon learning that disclosure of such information is sought in a court of competent jurisdiction, give notice to the Corporation and allow the Corporation, at the Corporation's expense, to undertake appropriate action to prevent disclosure of the Information deemed confidential;

(h) *Intentionally omitted .*

(i) use its best efforts to obtain from its counsel an opinion or opinions in customary form addressed to the Corporation and any selling shareholders;

(j) in the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering. Each holder of Registrable Securities participating in such underwriting shall also enter into and perform its obligations under such an agreement;

(k) provide a transfer agent and registrar (which may be the same entity and which may be the Corporation) for such Registrable Securities and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration;

(l) issue to any underwriter to which the Investor holding such Registrable Securities may sell shares in such offering certificates evidencing such Registrable Securities;

(m) list such Registrable Securities on any national securities exchange on which any shares of the Common Stock are listed or, if the Common Stock is not listed on a national securities exchange, use its best efforts to qualify such Registrable Securities for inclusion on the automated quotation system of the National Association of Securities Dealers, Inc. (the "NASDAQ"), or such other national securities exchange as the holders of a majority of such Registrable Securities shall reasonably request;

(n) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission and make available to its security holders, as soon as reasonably practicable, earnings statements (which need not be audited) covering a period of 12 months beginning within three months after the effective date of the registration statement, which earnings statements shall satisfy the provisions of Section 11 (a) of the Securities Act; and

(o) subject to all the other provisions of this Agreement, use its best efforts to take all other steps necessary to effect the registration of such Registrable Securities contemplated hereby.

(p) Each holder of the Registrable Securities, upon receipt of any notice from the Corporation of any event of the kind described in Section 3(f) hereof, shall forthwith discontinue disposition of the Registrable Securities pursuant to the registration statement covering such Registrable Securities until such holders' receipt of the copies of the supplemented or amended prospectus contemplated by Section 3(f) hereof, and, if so directed by the Corporation, such holder shall deliver to the Corporation all copies, other than permanent file copies then in such holder's possession, of the prospectus covering such Registrable Securities at the time of receipt of such notice.

#### Section 4. Expenses.

All expenses (other than underwriting discounts and commissions relating to the Registrable Securities, as provided in the last sentence of this Section 4) incurred by the Corporation in complying with Section 3, including, without limitation, all registration and filing fees (including all expenses incident to filing with the Financial Industry Regulatory Authority, Inc. "FINRA"), fees and expenses (including reasonable legal fees of Investor's counsel) of complying with securities and blue sky laws, printing expenses, fees and expenses of the Corporation's counsel and accountants, Corporation's filings, shall be paid by the Corporation; provided, however, (i) all underwriting discounts and selling commissions applicable to the Registrable Securities and Other Shares shall be borne by the holders selling such Registrable Securities and Other Shares, in proportion to the number of Registrable Securities and Other Shares sold by each such holder and (ii) provided however the Corporation shall not be liable or responsible to pay the fees of Investor's attorney for the review of any registration statement.

#### Section 5. Indemnification.

(a) In connection with any registration of any Registrable Securities under the Securities Act pursuant to this Agreement, the Corporation shall indemnify and hold harmless the holders of Registrable Securities, each underwriter, broker or any other person acting on behalf of the holders of Registrable Securities and each other person, if any, who controls any of the foregoing persons within the meaning of the Securities Act against any losses, claims, damages or liabilities, joint or several (or actions in respect thereof), to which any of the foregoing persons may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or allegedly untrue statement of a material fact contained in the registration statement under which such Registrable Securities were registered under the Securities Act, the Exchange Act or any preliminary prospectus or final prospectus contained therein or otherwise filed with the Commission, any amendment or supplement thereto or any document incident to registration or qualification of any Registrable Securities, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading or, with respect to any prospectus, necessary to make the statements therein in light of the circumstances under which they were made not misleading, or any violation by the Corporation of the Securities Act or state securities or blue sky laws applicable to the Corporation and relating to action or inaction required of the Corporation in connection with such registration or qualification under such state securities or blue sky laws; and shall reimburse the holders of Registrable Securities, such underwriter, such broker or such other person acting on behalf of the holders of Registrable Securities and each such controlling person for any legal or other expenses reasonably incurred by any of them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Corporation shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action (including any legal or other expenses incurred) arises out of or is based upon an untrue statement or allegedly untrue statement or omission or alleged omission made in said registration statement, preliminary prospectus, final prospectus, amendment supplement or document incident to registration or qualification of any Registrable Securities in reliance upon and in conformity with written information furnished to the Corporation through an instrument duly executed by the holders of Registrable Securities or their counsel or underwriter specifically for use in the preparation thereof; provided further, however, that the foregoing indemnity agreement is subject to the condition that, insofar as it relates to any untrue statement, omission or alleged omission made in any preliminary prospectus but eliminated or remedied in the final prospectus (filed pursuant to Rule 424 of the Securities Act), such indemnity agreement shall not inure to the benefit of any Investor, underwriter, broker or other person acting on behalf of holders of the Restricted Shares from whom the person asserting any loss, claim, damage, liability or expense purchased the Restricted Shares which are the subject thereof, if a copy of such final prospectus had been made available to such person and the Investor, underwriter, broker or other person acting on behalf of holders of the Registrable Securities and such final prospectus was not delivered to such person with or prior to the written confirmation of the sale of such Registrable Securities to such person.

(b) In connection with any registration of Registrable Securities under the Securities Act pursuant to this Agreement, each holder of Registrable Securities shall severally and not jointly indemnify and hold harmless (in the same manner and to the same extent as set forth in the preceding paragraph of this Section 5) the Corporation, each director of the Corporation, each officer of the Corporation who shall sign such registration statement, each underwriter, broker or other person acting on behalf of the holders of Registrable Securities and each person who controls any of the foregoing persons within the meaning of the Securities Act with respect to any statement or omission from such registration statement, any preliminary prospectus or final prospectus contained therein or otherwise filed with the Commission, any amendment or supplement thereto or any document incident to registration or qualification of any Registrable Securities, if such statement or omission was made in reliance upon and in conformity with written information furnished to the Corporation or such underwriter specifically for use in connection with the preparation of such registration statement, preliminary prospectus, final prospectus, amendment, supplement or document; provided, however, that the maximum amount of liability in respect of such indemnification shall be limited, in the case of each Seller of Registrable Securities, to an amount equal to the net proceeds actually received by such Seller from the sale of Registrable Securities effected pursuant to such registration.

(c) Promptly after receipt by an indemnified party of notice of the commencement of any action involving a claim referred to

in the preceding paragraphs of this Section 5, such indemnified party will, if a claim in respect thereof is made against an indemnifying party, give written notice to the latter of the commencement of such action. The failure of any indemnified party to notify an indemnifying party of any such action shall not (unless such failure shall have a material adverse effect on the indemnifying party) relieve the indemnified party on account of this Section 5. In case any such action is brought against an indemnified party, the indemnifying party will be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified to the extent that it may wish, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be responsible for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof; provided, however, that if any indemnified party shall have reasonably concluded that there may be one or more legal or equitable defenses available to such indemnified party which are additional to or conflict with those available to the indemnifying party, or that such claim or litigation involves or could have an effect upon matters beyond the scope of the indemnity agreement provided in this Section 5, the indemnifying party shall not have the right to assume the defense of such action on behalf of such indemnified party (but shall have the right to participate therein with counsel of its choice) and such indemnifying party shall reimburse such indemnified party and any person controlling such indemnified party for that portion of the fees and expenses of any counsel retained by the indemnified party which is reasonably related to the matters covered by the indemnity agreement provided in this Section 5. If the indemnifying party is not entitled to, or elects not to, assume the defense of a claim, it will not be obligated to pay the fees and expenses of more than one counsel with respect to such claim.

(d) If the indemnification provided for in this Section 5 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, claim, damage, liability or action referred to herein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amounts paid or payable by such indemnified party as a result of such loss, claim, damage, liability or action in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions which resulted in such loss, claim, damage, liability or action as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. In no event shall contribution obligations of this Section 5(b) exceed the net profits from the offering received by such holder after deducting underwriting fees, discounts and commissions. No person guilty of fraudulent misrepresentation shall be entitled to contribution from any person.

#### Section 6. Underwriting Agreement.

Notwithstanding the provisions of Sections 2, 3, 4 and 5, to the extent that the Investor shall enter into an underwriting or similar agreement, which agreement contains provisions covering one or more issues addressed in such Sections, the provisions contained in such agreement addressing such issue or issues shall control; provided, however, that any such agreement to which the Corporation is not a party shall not be binding upon the Corporation. No holder may participate in any underwritten registration hereunder unless such holder (a) agrees to such holder's securities on the basis provided in any underwriting arrangements and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably and customarily required under the terms of such underwriting arrangements.

#### Section 7. Information by Investor.

The Investor shall furnish to the Corporation such written information regarding the Investor and the distribution proposed by the Investor as the Corporation may reasonably request in writing and shall be reasonably required in connection with any registration, qualification or compliance referred to in this Agreement.

#### Section 8. Exchange Act Compliance.

With a view to making available to the Investor the benefits of Rule 144 promulgated under the Act and any other rule or regulation of the Commission may at any time permit an Investor to sell securities of the Corporation to the public without registration or pursuant to a registration on Form S-3, the Corporation agrees, on and after becoming subject to reporting obligations under the federal securities laws, to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144, at all times after ninety (90) days after the effective date of the first registration statement filed by the Corporation for the offering of its securities to the general public;

(b) file with the Commission in a timely manner all reports and other documents required of the Corporation under the Securities Act and the Exchange Act; and

(c) furnish to any Investor, so long as the Investor owns any Registrable Securities, forthwith upon request (i) a written statement by the Corporation that it has complied with the reporting requirements of Rule 144, and (ii) such other information as may be reasonably requested in availing any Investor of any rule or regulation of the Commission which permits the selling of any such securities without registration or pursuant to such form. Notwithstanding anything to the contrary in this Section, so long as the Corporation makes all required filings under the Exchange Act, it shall be deemed to comply with this Section without any further action or notice to the Investor.

Section 9. No Conflict of Rights .

The Corporation shall not, after the date hereof, grant any registration rights which conflict with or impair the registration rights granted hereby.

Section 10. Termination .

This Agreement shall terminate and be of no further force or effect when there shall no longer be any Registrable Securities outstanding; provided that Sections 4 and 5 shall survive any termination of this Agreement.

Section 11. Successors and Assigns .

This Agreement shall bind and inure to the benefit of the Corporation and the Investor and, subject to Section 13, the respective successors and assigns of the Corporation and the Investor.

Section 12. Assignment .

The Investor may assign its rights hereunder to any purchaser or transferee of Registrable Securities; provided, however, that such purchaser or transferee shall, as a condition to the effectiveness of such assignment, be required to execute and deliver to the Corporation a counterpart to this Agreement agreeing to be treated as an Investor whereupon such purchaser or transferee shall have the benefits of, and shall be subject to the restrictions contained in, this Agreement as if such purchaser or transferee was originally included in the definition of an Investor herein and had originally been a party hereto.

Section 13. Third Party Beneficiaries .

This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other Person

Section 14. Entire Agreement .

This Agreement and the other writings referred to herein or therein or delivered pursuant hereto or thereto, contain the entire agreement among the Investor and the Corporation with respect to the subject matter hereof and supersede all prior and contemporaneous arrangements or understandings with respect thereto.

Section 15. Notices .

All notices, requests, consents and other communications hereunder to any party hereunder shall be in writing and shall be deemed effectively given upon personal delivery; upon confirmed transmission by telecopy or telex if sent during normal business hours of the recipient (or if not, on the next Trading Day of the recipient); three days after deposit with the United States Post Office, by registered or certified mail, postage prepaid; or otherwise upon delivery by hand or by messenger or one day after deposit with a nationally recognized courier service, addressed to such party at the address set forth below or such other address as may hereafter be designated in writing by such party to the other parties:

if to the Corporation, to:

Converted Organics, Inc.  
Attn: Ed Gildea  
7A Commercial Wharf West  
Boston, Massachusetts 02110  
Telephone: (617) 624-0111  
Fax: (617) 624-0333

with a copy to: (which shall not constitute notice):

Cozen O'Connor  
Attn: Ralph V. De Martino, Esq.  
The Army and Navy Building  
1627 I Street, NW  
Suite 1100  
Washington, DC 20006  
Telephone: 202-912-4800  
Fax: 202-912-4830

if to the Investor, to:

Professional Offshore Opportunity Fund, Ltd.  
? Professional Traders Management, LLC  
Attn: Howard Berger  
1400 Old Country Road, Suite 206  
Westbury, New York 11590  
Telephone: 516-228-0070  
Fax: 516-228-8083

with a copy to (which shall not constitute notice):

Anslow & Jaclin LLP  
Attn: Joseph M. Lucosky, Esq.

Eric M. Stein, Esq.

195 Route 9 South  
Manalapan, NJ 07726  
Telephone: (732) 409-1212  
Facsimile: (732) 577-1188

All such notices, requests, consents and other communications shall be deemed to have been delivered (a) in the case of personal delivery or delivery by telecopy, on the date of such delivery, (b) in the case of dispatch by nationally-recognized overnight courier, on the next business day following such dispatch and (c) in the case of certified or registered mail (return receipt requested), on the third business day after the posting thereof.

#### Section 16. Modifications; Amendments; Waivers .

The terms and provisions of this Agreement may not be modified or amended, nor may any provision be waived, except pursuant to a writing signed by the Corporation and the holders of at least a majority of the Registrable Securities then outstanding.

#### Section 17. Counterparts .

This Agreement may be executed in any number of counterparts, and each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

#### Section 18. Facsimile Signature .

In the event that any signature is delivered by facsimile transmission, PDF, electronic signature or other similar electronic means, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such signature page were an original thereof.

#### Section 19. Headings .

The headings of the various sections of this Agreement have been inserted for convenience of reference only and shall not be

deemed to be a part of this Agreement.

Section 20. Governing Law .

This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York, without regard to conflicts of law principles.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

<sup>1</sup> All capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Securities Purchase Agreement.

**[SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT]**

**IN WITNESS WHEREOF** , the undersigned have executed and delivered this Agreement as of the date first set forth above.

CONVERTED ORGANICS, INC.

By: \_\_\_\_

Name: Ed Gildea  
Title: President and Chief Executive Officer

PROFESSIONAL OFFSHORE OPPORTUNITY

FUND, LTD.

By: \_\_\_\_

Name: Howard Berger  
Title: Manager