

Spurned by VCs, waste conversion startup goes public

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Startup Converted Organics Inc. has taken the processes behind backyard composting and mimicked them on a vastly larger scale to create a cutting-edge business.

And the Boston-based company took an unusual route to raise the capital it needed to launch its pilot waste-converting plant -- after being rebuffed by venture capitalists, the company filed for an IPO.

"If we had been able to raise the money in the private markets we most certainly would have," said CEO and President Ed Gildea. "The pro is we've got the money. The con is that it is incredibly expensive to operate as a public company."

Converted Organics raised \$9.9 million through its IPO in February and has a market capitalization of \$14.3 million.

At press time, the stock was trading at \$4.20 per share. The company began trading on Nasdaq Feb. 13 using the ticker symbol COINU. In addition to going public, the development-stage company simultaneously issued a solid-waste revenue bond through the New Jersey Economic Development Authority for \$17.5 million.

Inside the proposed waste-converting plant, Converted Organics will use a technology called Enhanced Autogenous Thermophilic Aerobic Digestion to convert food into organic fertilizer.

The six-day cycle begins when a food waste hauler drops off the refuse. Any inorganic material is removed and the organic waste is placed inside a macerator, where it is crushed. Then digestion begins, using a mixture of heat, air and bacteria.

The fertilizer produced in the end can be marketed in a liquid or dry form to farmers, turf growers and consumers.

Converted Organics plans to make money in two ways. Waste haulers will pay about \$62 per ton of waste, and the organic fertilizer will sell for around \$540 per ton.

Launched in 2003, Converted Organics has five employees and predicts it will reach profitability in 2008. Because of its size and early stage of development, the IPO route could prove difficult.

"This a very uncommon deal -- there are very few mini-IPOs in the U.S. markets," said Benjamin Howe, CEO of America's Growth Capital in Boston. "I'm not an advocate of that, because the shares won't trade early and the stockholders, at least out of the gate, lost money. It will be very hard to predict the success of the company."



W. Marc Bernsau

Ed Gildea's company, Converted Organics, raised \$9.9 million in an IPO, which Gildea said he would have willingly foregone if he could have raised the money through venture capital.

The company will use the \$27.4 million to construct its first food waste converter plant in Woodbridge, N.J. Construction on the 60,000-square-foot facility will be completed in 2008. Ultimately, it will process 500 tons of food waste each day.

"It's a pretty amazing business model. The net margins are incredible because the company has two revenue streams," said Michael Maxfield, an analyst with Paulson Investment Company Inc., the Portland, Ore.-based company that brokered Converted Organics' IPO.

Investors are betting the plant will represent an appealing food waste disposal option to the stench-producing alternatives of landfills, composters and pig farms, according to the company.

With the New Jersey plant serving as the testing ground, Converted Organics hopes to duplicate the process in other states. It is close to reaching a similar deal with Rhode Island and is scouting for a location in Massachusetts.

"We don't have any food waste facilities in our county, and there's really very little in the state of New Jersey at all except the pig farmers. The state is pushing us to meet recycling goals and food waste is probably going to be a big part of it," said Carole Tolmachewich, principal planner at the Middlesex County (New Jersey) Division of Solid Waste Management.

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