BION ENVIRONMENTAL TECHNOLOGIES INC
Form 10-Q
November 09, 2015

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _________

Commission File No. **000-19333**

Bion Environmental Technologies, Inc.

(Name of registrant in its charter)

Colorado

84-1176672

(State or other jurisdiction of incorporation or formation)

(I.R.S. employer identification number)

Box 566 / 1774 Summitview Way

Crestone, Colorado 81131

(Address of principal executive offices)

(212) 758-6622

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o

Accelerated filer o

Non-accelerated filer o

(Do not check if a smaller reporting company)

Smaller reporting company x

SEC 1296 (03-10) **Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS: Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. **Not applicable.**

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. On November 6, 2015, there were 22,624,013 Common Shares issued and 21,919,704 Common Shares outstanding.

BION ENVIRONMENTAL TECHNOLOGIES, INC.

FORM 10-Q

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve substantial risks and uncertainties. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "project," "predict," "plan," "believe" or "continue" or the negative thereof or variations thereon or similar terminology. The expectations reflected in forward-looking statements may prove to be incorrect.

PART I FINANCIAL INFORMATION

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30,
	June 30,
	2015
	2015

(Unaudited)

ASSETS

Current assets:

Cash	$ 180,346	$ 339,286
Promissory note receivable (Note 4)	105,828	-
Prepaid expenses	22,417	18,503

Subscription receivable (Note 9)	-
	13,125
Deposits and other receivables	7,108
	7,108
Total current assets	315,699
	378,022

Property and equipment, net (Note 3)	1,904,600	1,977,219
Total assets	$ 2,220,299	$ 2,355,241

LIABILITIES AND EQUITY (DEFICIT)

Current liabilities:

Accounts payable and accrued expenses

$

1,436,972

$

1,353,168

Series B Redeemable Convertible Preferred stock, $0.01 par value,

50,000 shares authorized; 200 shares issued and outstanding, liquidation preference of $28,500 and $28,000, respectively

25,900

25,400

Notes payable affiliates, net of discount (Note 5)

-

472,230

Deferred compensation (Note 6)

900,524

839,288

Loan payable (Note 7)

7,754,000

7,754,000

Total current liabilities

10,117,396

10,444,086

Convertible notes payable affiliates, net of current portion (Note 8)	3,187,307	2,654,708
Total liabilities	13,304,703	13,098,794

Deficit:

Bion's stockholders' equity (deficit):

Series A Preferred stock, $0.01 par value, 10,000 shares authorized,

no shares issued and outstanding

-

-

Series C Convertible Preferred stock, $0.01 par value,

60,000 shares authorized; no shares issued and outstanding

-

-

Common stock, no par value, 100,000,000 shares authorized, 22,606,852

and 22,089,650 shares issued, respectively; 21,902,543 and

21,385,341 shares outstanding, respectively

-

-

Additional paid-in capital

101,380,805

100,889,127

Accumulated deficit

(112,527,294)

(111,696,060)

Total Bion s stockholders

deficit	(11,146,489)	(10,806,933)
Noncontrolling interest	62,085	63,380
Total deficit	(11,084,404)	(10,743,553)

Total liabilities and deficit	$ 2,220,299	$ 2,355,241

See notes to consolidated financial statements.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(UNAUDITED)

2015

2014

Revenue

$

-

$

-

Operating expenses:

General and administrative (including stock-based

compensation
(Note 9))

507,905

357,341

Depreciation

75,879

184,884

Research and
development
(including
stock-based

compensation
(Note 9))

134,489

66,586

Total operating
expenses

718,273

608,811

Loss from operations

(718,273)

(608,811)

Other expense:

Interest expense, net

114,256

96,947

114,256

96,947

Net loss

(832,529)

(705,758)

Net loss attributable to the noncontrolling interest

1,295

1,071

Net loss attributable to

Bion

(831,234)

(704,687)

Dividends on preferred stock

(500)

(500)

Net loss applicable to Bion's common stockholders

$

(831,734)

$

(705,187)

Net loss applicable to Bion's common stockholders per basic and diluted common share	$	(0.04)
	$	(0.04)

Weighted-average number of common shares outstanding:	
Basic and diluted	
	22,289,077

19,817,076

See notes to consolidated financial statements.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

THREE MONTHS ENDED SEPTEMBER 30, 2015

(UNAUDITED)

Bion's Shareholders'

Non-

Series C Preferred Stock

Common Stock

Additional

Accumulated

controlling

Total

Shares

Amount

Shares

Amount

paid-in capital

deficit

interest

equity/(deficit)

Balances, July 1, 2015

-

$

-

22,089,650

$

-

$

100,889,127

$

(111,696,060)

$

63,380

$

(10,743,553)

Issuance of common stock for services

-

-

29,934

-

25,952

-

-

25,952

Vesting of options for services

-

-

-

-

15,320

-

-

15,320

Warrants exercised for common stock

-

-

278,394

-

279,189

-

-

279,189

Dividend on Series B preferred stock

-

-

-

-

(500)

-

-

(500)

Conversion of debt

-

-

208,874

-

171,717

-

-

171,717

Net loss

-

-

-

-

-

(831,234)

(1,295)

(832,529)

Balances,
September 30,
2015

-

$

-

22,606,852

$

-

$

101,380,805

$

(112,527,294)

$

62,085

$

(11,084,404)

See notes to consolidated financial statements.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(UNAUDITED)

	2015	**2014**
CASH FLOWS FROM OPERATING ACTIVITIES		

Net loss	$ (832,529)	$ (705,758)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense		

75,879

184,884

Accrued interest on deferred compensation and other

114,469

93,577

Stock-based compensation

41,272

7,947

Increase in prepaid expenses	(3,914)	(1,686)
Increase in accounts payable and accrued expenses	34,429	111,257
Increase in deferred compensation and convertible notes	227,400	

156,000

Net cash used in operating activities

(342,994)

(153,779)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	
(3,260)	
-	
Net cash used in investing activities	
(3,260)	
-	

CASH FLOWS FROM FINANCING ACTIVITIES

Decrease in subscription receivable

13,125

30,000

Proceeds from sale of common stock

-

26,250

Proceeds from exercise of warrants

174,189

-

Net cash provided by financing activities

187,314

56,250

Net decrease in cash	
(158,940)	
(97,529)	
Cash at beginning of period	

339,286

186,148

Cash at end of period	$ 180,346	$ 88,619

Supplemental disclosure of cash flow information:		
Cash paid for interest	$ -	$ -

Non-cash investing and financing transactions:		
Series B preferred stock dividends accrued	$ 500	$ 500
Issuance of common stock to satisfy deferred compensation		

$ 171,717

$ -

Exercise of warrants for promissory note receivable

$ 105,000

$ -

See notes to consolidated financial statements.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2015

1.

ORGANIZATION, NATURE OF BUSINESS, GOING CONCERN AND MANAGEMENT S PLANS:

Organization and nature of business:

Bion Environmental Technologies, Inc. (Bion or We or the "Company") was incorporated in 1987 in the State of Colorado and has developed and continues to develop patented and proprietary technology and business models that provide comprehensive environmental solutions to a significant source of pollution in United States agriculture, large scale livestock facilities known as Confined Animal Feeding Operations ("CAFO's"). Bion's technologies (and applications related thereto) produce substantial reductions of nutrient releases (primarily nitrogen and phosphorus) to both water and air (including ammonia, which is subsequently re-deposited to the ground) from livestock waste streams based upon our operations and research to date (and third party peer review thereof). We are continually involved in research and development to upgrade and improve our technology and technology applications, including integration with third party technology. Bion provides comprehensive and cost-effective treatment of livestock waste onsite, while it is still concentrated and before it contaminates air, soil, groundwater aquifers and/or downstream waters, and, in certain configurations, recovers nutrients for potential use as fertilizer and feed additives.

During the 2014 fiscal year the Company increased its research and development activities with focus on creating variations of its technology platform that provide additional flexibility, increase recovery of nutrient by-products (in organic and non-organic forms) and potential related revenue streams, and to review potential add-ons and applications for use in different regulatory environments. These research and development activities continued through the 2015 fiscal year, and we believe such activities will continue at least through the 2016 fiscal year, subject to availability of adequate financing for the Company s operations, of which there is no assurance.

Bion is actively pursuing business opportunities in three broad areas 1) installation of Bion systems to retrofit and environmentally remediate existing CAFO s to reduce nutrient (primarily nitrogen and phosphorus) releases, gaseous emissions (ammonia, greenhouse gases, volatile organic compounds, etc.), and pathogens, hormones and other compounds in order to clean the air and water in the surrounding areas (as described below) to ensure compliance with existing (and future) regulations and to permit herd expansion; 2) development of Integrated Projects opportunities within the United States and internationally; and 3) licensing and/or joint venturing of Bion s technology and applications outside North America. The opportunities described at 1) and 2) above (and below) each require substantial political and regulatory (federal, state and local) efforts on the part of the Company and a substantial part of Bion s efforts are focused on such political and regulatory matters. The most intense focus is currently on the requirements for the clean-up of the Chesapeake Bay faced by the Commonwealth of Pennsylvania and the potential use of Bion s technology and technology platform on CAFOs as an alternative to what the Company believes is far more expensive nutrient removal downstream in storm water projects.

Management believes that Bion's technology platform (including utilization of various third party technologies to supplement the Company s proprietary technologies), in addition to utilization for remediation of the waste streams of existing CAFOs, can enable the integration of large-scale CAFO's and their end-product users, renewable energy production from the CAFO waste stream, on site utilization of the renewable energy generated and biofuel/ethanol production in an environmentally and economically sustainable manner while reducing the aggregate capital expense and operating costs for the entire integrated complex ("Integrated Projects" or "Projects"). In the context of Integrated Projects, Bion's waste treatment process, in addition to mitigating polluting releases, enables generation of renewable energy from cellulosic portions of the CAFO waste stream, which renewable energy can be utilized by integrated facilities including ethanol plants, CAFO end-product processors (including cheese, ice cream and/or bottling plants in the case of dairy CAFO s and/or slaughter and/or processing facilities in the context of beef CAFO s) and/or other users as a fossil fuel replacement. The nutrients (primarily nitrogen and phosphorus) can be harvested from the solids and liquid streams recovered from the livestock waste stream and can be utilized as either high value fertilizer and/or the basis for high protein animal feed and the nutrient rich effluent can potentially be utilized in integrated hydroponic agriculture and/or field applied as fertilizer. Bion believes that its Integrated Projects will produce high quality, traceable animal protein which can

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2015

address consumer food safety/security concerns at a lower cost than current industry practices while also maintaining a far lower net environmental footprint per unit of protein produced due to water recycling (possible due to the removal of nutrients, etc. from the water by Bion s technology applications), production of renewable energy from the waste stream (reducing the use of fossil fuels), and multiple levels of economies of scale, co-location and integration savings in transportation and other logistics. Some projects may involve only partial integration which will limit the benefits described herein.

On September 27, 2008, the Company executed an agreement with Kreider Farms (and its affiliated entities) (collectively "Kreider") to design, construct and operate (through its wholly-owned subsidiaries, Bion Services Group, Inc. (Bion Services) and Bion PA-1 LLC (PA-1) a Bion system to treat the waste of 1,200 milking dairy cows (milkers, dry cows and heifers) at the Kreider Dairy, located in Manheim, Pennsylvania. In addition, the agreement (as amended and supplemented) provides for a second phase which will treat the wastes from the rest of Kreider s herd and includes renewable energy production from the cellulosic solid wastes from the Phase 1 system (referred to as Kreider 1) together with the waste stream from Kreider s poultry facilities for use at the facilities and/or for market sales. The Kreider projects are owned and operated by Bion through subsidiaries, in which Kreider has the option to purchase a noncontrolling interest. Substantial capital (equity and/or debt) has been and will continue to be expended on these projects. Additional funds will be required for continuing operations of Kreider 1 until sufficient revenues can be generated, of which there is no assurance. The Company anticipates that such projects will generate revenue primarily from the sale of nutrient reduction (and/or other) environmental credits related to Kreider 1 and the Kreider Phase 2 poultry waste treatment system (not yet constructed), and secondarily through sales of byproducts (feed additives and/or fertilizer, (organic and non-organic)) and renewable energy generated by the Kreider Phase 2 system. To date the market for long-term nutrient reduction credits in Pennsylvania has been very slow to develop and the Company s activities have been negatively affected by the lack of such development. A portion of Bion s research and development activities is currently taking place at the Kreider 1 facility.

The Company s subsidiary PA-1 financed Kreider 1 through a $7.8 million loan (Pennvest Loan) from Pennsylvania Infrastructure Investment Authority (Pennvest) secured by Kreider 1 (and its revenue streams, if any) plus advances from the Company. The economics (potential revenues and profitability) of Kreider 1 are based largely on the long-term sale of nutrient reduction credits (nitrogen and/or phosphorus) to meet the requirements of the Chesapeake Bay environmental clean-up. The Pennsylvania Department of Environmental Protection (PADEP) issued final permits for Kreider 1 (including the credit verification plan) on August 1, 2012 on which date the Company deemed that Kreider 1 was placed in service . However, liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth and has prevented Bion from monetizing the nutrient reduction credits created by PA-1 s Kreider 1 project and Bion s other proposed projects. These challenges and difficulties raise significant questions as to when PA-1 will be able to generate such revenues from Kreider 1. PA-1 has elected not to make interest or principal payments on the Pennvest Loan since January 2013 and, therefore, the Company has classified the Pennvest Loan as a current liability as of September 30, 2015. The Company recorded a $1,750,000 impairment of the Kreider 1 assets for the year ended June 30, 2015 (following a $2,000,000 impairment during the year ended June 30, 2014).

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and demanded that PA-1 pay $8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA-1 did not make the payment and does not have the resources to make the payment demanded by Pennvest.

PA-1 has commenced discussions and negotiations with Pennvest concerning this matter but Pennvest has rejected PA-1 s proposal made during the fall of 2014. Neither party has any formal proposal on the table as of the date of this report but discussions and negotiations remain in process. It is not possible at this date to predict the outcome of such negotiations, but the Company believes it is possible that an agreement may yet be reached that will provide a loan modification. Subject to the results of the negotiations with Pennvest and pending development of a more robust market for nutrient reductions in Pennsylvania, PA-1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2015

During August 2012, the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 system met the technology guaranty standards which were incorporated in the Pennvest financing documents and, as a result, the Pennvest Loan is now solely an obligation of PA-1.

Development work and technology evaluation, including amended credit certification and discussions with potential joint venture partners, continues related to the details of the second phase of the Kreider project which primarily relates to treatment of the wastes from Kreider s poultry operations. Assuming there are positive developments related to the market for nutrient reduction in Pennsylvania, the Company intends to pursue development, design and construction of the Kreider 2 poultry waste/renewable energy project with a goal of achieving operational status during calendar year 2016. However, as discussed above, this project faces challenges related to the current limits of the existing nutrient reduction market and funding of technology-based, verifiable agricultural nutrient reductions.

A significant portion of Bion s activities concern efforts with private and public stakeholders (at local and state level) in Pennsylvania (and other Chesapeake Bay and Midwest and Great Lakes states) and at the federal level (the Environmental Protection Agency (EPA) and the Department of Agriculture (USDA) (and other executive departments) and Congress) to establish appropriate public policies which will create regulations and funding mechanisms that foster installation of the low cost environmental solutions that Bion (and others) can provide through clean-up of agricultural waste streams. The Company anticipates that such efforts will continue in Pennsylvania throughout the next 12 months and in various additional states thereafter.

Going concern and management s plans:

The consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has not generated significant revenues and has incurred net losses (including significant non-cash expenses) of approximately $5,640,000 and $5,762,000 during the years ended June 30, 2015 and 2014, respectively and a net loss of approximately $833,000 during the three months ended September 30, 2015. At September 30, 2015, the Company has a working capital deficit and a stockholders deficit of approximately $9,802,000 and $11,146,000, respectively. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability or classification of assets or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern. The following paragraphs describe management s plans with regard to these conditions.

The Company continues to explore sources of additional financing to satisfy its current operating requirements as it is not currently generating any significant revenues.

During the years ended June 30, 2015 and 2014, the Company received total proceeds of $1,000,940 and $944,400, respectively, from the sale of its equity securities. Proceeds during the 2015 and 2014 fiscal years have been lower than in earlier years and accordingly has negatively impacted the Company s business development efforts.

During the three months ended September 30, 2015, the Company entered into subscription agreements to exercise certain warrants with expiry dates on or before December 31, 2015, into restricted shares of the Company s common stock at a reduced exercise price of $1.05, for the period from June 30, 2015 through July 15, 2015. Pursuant to the offering, 265,894 warrants were exercised and 265,894 shares of the Company s restricted common stock were issued during the three months ended September 30, 2015, resulting in cash proceeds of $174,189 and receipt of a $105,000 interest bearing, collateralized promissory note.

During fiscal years 2015 and 2014 and through the three months ended September 30, 2015, the Company experienced greater difficulty in raising equity funding than in the prior years. As a result, the Company faced, and continues to face, significant cash flow management challenges due to working capital constraints. To partially mitigate these working capital constraints, the Company s core senior management and several key employees and consultants have been deferring (and continue to defer) all or part of their cash compensation and/or are accepting compensation in the form of securities of the Company (Notes 6 and 8) and members of the Company s senior management have made loans to the Company. Additionally, the Company made reductions in its personnel during the year ended June 30, 2014. The constraint on available resources has had, and continues to have, negative effects on the pace and scope of the Company s efforts to develop its business. The Company has had to delay payment of trade obligations and has had to economize in many ways that have potentially negative consequences. If the Company does not have greater success in its efforts to raise needed funds during the balance of the 2016 fiscal year (and subsequent periods), management will need to consider deeper cuts (including additional personnel cuts) and curtailment of operations (including possibly Kreider 1 operations) and/or research and development activities.

The Company will need to obtain additional capital to fund its operations and technology development, to satisfy existing creditors, to develop Integrated Projects and CAFO waste remediation systems (including the Kreider 2 facility) and to continue to operate the Kreider 1 facility. The Company anticipates that it will seek to raise from $2,500,000 to $50,000,000 or more debt and/or equity through joint ventures and/or sale of its equity securities (common, preferred and/or hybrid) and/or debt (including convertible) securities, and/or through use of rights and/or warrants (new and/or existing) during the next twelve months. However, as discussed above, there is no assurance, especially in light of the difficulties the Company has experienced in recent periods and the extremely unsettled capital markets that presently exist (especially for small companies), that the Company will be able to obtain the funds that it needs to stay in business, complete its technology development or to successfully develop its business and projects.

There is no realistic likelihood that funds required during the next twelve months or in the periods immediately thereafter for the Company s basic operations and/or proposed projects will be generated from operations. Therefore, the Company will need to raise sufficient funds from external sources such as debt or equity financings or other potential sources. The lack of sufficient additional capital resulting from the inability to generate cash flow from operations and/or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. Further, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significantly dilutive effect on the Company's existing shareholders. All of these factors have been exacerbated by the extremely unsettled credit and capital markets presently existing for small companies like Bion.

2.

SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bion Integrated Projects Group, Inc. (Projects Group), Bion Technologies, Inc., BionSoil, Inc., Bion Services, PA-1, and Bion PA 2 LLC; and its 58.9% owned subsidiary, Centerpoint Corporation (Centerpoint). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The consolidated financial statements reflect all adjustments (consisting of only normal recurring entries) that, in the opinion of management, are necessary to present fairly the financial position at September 30, 2015, and the results of operations and cash flows of the Company for the three months ended September 30, 2015 and 2014. Operating results for the three months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending June 30, 2016.

Property and equipment:

Property and equipment are stated at cost and are depreciated, when placed into service, using the straight-line method over the estimated useful lives of the related assets, generally three to twenty years. The Company capitalizes all direct costs and all indirect incrementally identifiable costs related to the design and construction of its Integrated Projects. The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized based on the amount by which the carrying value of the assets or asset group exceeds its estimated fair value, and is recognized as a loss from operations.

Fair value measurements:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The Company uses a fair value hierarchy that has three levels of inputs, both observable and unobservable, with use of the lowest possible level of input to determine fair value.

Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 assets and liabilities whose significant value drivers are unobservable.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company s market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the fair value measurement is required to be classified using the lowest level of input that is significant to the fair value measurement. Such determination requires significant management judgment.

The fair value of cash, promissory note receivable and accounts payable approximates their carrying amounts due to their short-term maturities. The fair value of the loan payable approximates its carrying amount as it bears interest at rates commensurate with market rates. The fair value of the redeemable preferred stock approximates its carrying value due to the dividends accrued on the preferred stock which are reflected as part of the redemption value. The fair value of deferred compensation and convertible notes payable - affiliates are not practicable to estimate due to the related party nature of the underlying transactions.

Revenue Recognition:

Revenues are generated from the sale of nutrient reduction credits. The Company recognizes revenue from the sale of nutrient credits when there is persuasive evidence that an arrangement exists, when title has passed, the price is fixed or determinable, and collection is reasonably assured.

The Company expects that technology license fees will be generated from the licensing of Bion s integrated system. The Company anticipates that it will charge its customers a non-refundable up-front technology license fee, which will be recognized over the estimated life of the customer relationship. In addition, any on-going technology license fees will be recognized as earned based upon the performance requirements of the agreement. Annual waste treatment fees will be recognized upon receipt. Revenues, if any, from the Company s interest in Integrated Projects will be recognized when the entity in which the Integrated Project has been developed recognizes such revenue.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2015

Loss per share:

Basic loss per share amounts are calculated using the weighted average number of shares of common stock outstanding during the period. Diluted loss per share assumes the conversion, exercise or issuance of all potential common stock instruments, such as options or warrants, unless the effect is to reduce the loss per share. During the three months ended September 30, 2015 and 2014, the basic and diluted loss per share was the same, as the impact of potential dilutive common shares was anti-dilutive.

The following table represents the warrants, options and convertible securities excluded from the calculation of diluted loss per share:

	September 30, 2015	September 30, 2014
Warrants	8,295,989	7,656,403
Options	4,413,870	4,258,870

Convertible debt	7,119,524	3,153,936
Convertible preferred stock	14,250	13,250

The following is a reconciliation of the denominators of the basic loss per share computations for the three months ended September 30, 2015 and 2014:

	Three months ended September 30, 2015	Three months ended September

30,

2014

Shares issued beginning of period

22,089,650

19,579,619

Shares held by subsidiaries (Note 9)

(704,309)

(704,309)

Shares outstanding beginning of period

21,385,341

18,872,310

Weighted average shares for fully vested stock bonuses

(Note 10)

600,000

840,000

Weighted average shares issued during the period

303,736

104,766

Basic weighted average shares end of period

22,289,077

19,817,076

Recent Accounting Pronouncements:

The Company continually assesses any new accounting pronouncements to determine their applicability. When it is determined that a new accounting pronouncement affects the Company s financial reporting, the Company undertakes a study to determine the consequences of the change to its financial statements and assures that there are proper controls in place to ascertain that the Company s financial statements properly reflect the change.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts from Customers, which supersedes the revenue recognition requirements in Revenue Recognition (Topic 605), and requires entities to recognize revenue in a way that depicts the transfer of potential goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to the exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and early adoption is not permitted. The Company is currently evaluating the new standard and assessing the potential impact on its operations and financial statements.

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In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements Going Concern: Disclosures of Uncertainties about an Entity s Ability to Continue as a Going Concern. The new standard requires management to perform interim and annual assessments of an entity s ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity s ability to continue as a going concern. The guidance is effective for annual periods ending after December 15, 2016, and interim periods thereafter, early application is permitted. The Company believes that the adoption of ASU No. 2014-15 will not have a material impact on its financial statements.

3.

PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	September 30, 2015	June 30, 2015
Machinery and equipment	$2,923,577	$2,923,577
Buildings and structures		

	1,385,125	1,385,125
Computers and office equipment	176,940	175,248
	4,485,642	4,483,950
Less accumulated depreciation	(2,581,042)	(2,506,731)
	$1,904,600	$1,977,219

Management reviewed property and equipment for impairment as of June 30, 2015 and determined that the carrying amount of property and equipment related to the Kreider 1 project exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits. Kreider 1 was measured at estimated fair value on a non-recurring basis using level 3 inputs, which resulted in an impairment of $1,750,000 of the property and equipment for the year ended June 30, 2015. As of September 30, 2015, management believes that no additional impairment exists.

Depreciation expense was $75,879 and $184,884 for the three months ended September 30, 2015 and 2014, respectively.

4.

PROMISSORY NOTE RECEIVABLE:

During the months ended September 30, 2015, the Company received an interest bearing promissory note for $105,000. The promissory note bears interest at 4% per annum, is collateralized, and is payable on January 31, 2016. The promissory note receivable was issued as consideration for an unaffiliated investor s subscription agreement to exercise warrants into 100,000 restricted common shares of the Company s common stock at $1.05 per share. The Company recorded interest income of $828 for the three months ended September 30, 2015.

5.

NOTES PAYABLE - AFFILIATES:

During the year ended June 30, 2015, the Company entered into promissory notes (FY2015 Promissory Notes), with effective dates of January 1, 2015, for initial principal amounts of $395,277, $15,956 and $80,764, with Dominic Bassani (Bassani), the Company s Chief Executive Officer (CEO), Edward Schafer (Schafer), the Company s V Chairman, and a major shareholder, (Shareholder), respectively. The FY2015 Promissory Notes accrued interest at 4% per annum and were payable on December 31, 2015. Effective September 8, 2015, the Company entered into new convertible promissory notes (September 2015 Convertible Notes) with Bassani, Shafer and Shareholder which replaced the FY2015 Promissory Notes. The initial principal balances of the September 2015 Convertible Notes were $405,831, $16,382 and $82,921, respectively. The new convertible promissory notes bear interest at 4% per annum, have maturity dates of December 31, 2017 and may be converted at the sole election of the noteholders into restricted common shares of the Company at a conversion price of $0.60 per share (Note 8).

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6.

DEFERRED COMPENSATION:

The Company owes deferred compensation to various employees, former employees and consultants totaling $900,524 as of September 30, 2015. Included in the deferred compensation balances as of September 30, 2015, are $282,727, $451 and $136,803 owed Bassani, Smith and Schafer, respectively, pursuant to extension agreements effective January 1, 2015, whereby unpaid compensation earned after January 1, 2015, would accrue interest at 4% per annum and could be converted into shares of the Company s common stock at the election of the employee during the first five calendar days of any month. The conversion price shall be the average closing price of the Company s common stock for the last 10 trading days of the immediately preceding month. During the three months ended September 30, 2015, Smith converted $82,861 of deferred compensation into 99,159 shares of the Company s common stock at conversion prices between $0.76 and $0.96 per share. Also included are sums the Company owes various consultants, pursuant to various agreements, for deferred compensation of $239,059 as of September 30, 2015 with similar conversion terms as those described above for Bassani, Smith and Schafer, with the exception that the interest accrues at 3% per annum. The Company also owes a former employee and a current employee deferred compensation of $168,000 and $984, respectively, which is convertible into 226,168 and 1,025 shares, respectively, of the Company s common stock as of September 30, 2015 and, the Company owes a former employee $72,500, which is not convertible and is non-interest bearing.

7.

LOAN PAYABLE:

As of September 30, 2015, PA-1, the Company s wholly-owned subsidiary, owes $7,754,000 under the terms of the Pennvest Loan related to the construction of the Kreider 1 System. The terms of the Pennvest Loan provide for funding of up to $7,754,000 which is to be repaid by interest-only payments for three years, followed by an additional ten-year amortization of principal. The Pennvest Loan accrues interest at 2.547% for years 1 through 5 and 3.184% for years 6 through maturity. The Pennvest Loan requires minimum annual principal payments of approximately $574,000 in fiscal year 2013, $704,000 in fiscal year 2014, $723,000 in fiscal year 2015, $741,000 in fiscal year 2016, $760,000 in fiscal year 2017 and $4,252,000 thereafter. The Pennvest Loan is collateralized by the Kreider 1 System and by a pledge of all revenues generated from Kreider 1 including, but not limited to, revenues generated from nutrient reduction credit sales and by-product sales. In addition, in consideration for the excess credit risk associated with the project, Pennvest is entitled to participate in the profits from Kreider 1 calculated on a net cash flow basis, as defined. The Company has incurred interest expense related to the Pennvest Loan of $49,374 for both of the three months ended September 30, 2015 and 2014, respectively. As of September 30, 2015, the accrued interest and late charges related to the Pennvest Loan total $635,166. Based on the limited development of the depth and breadth of the Pennsylvania nutrient reduction credit market to date, PA-1 has commenced negotiations with Pennvest related to forbearance and/or re-structuring the obligations under the Pennvest Loan. In the context of such negotiations, PA-1 has elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, the Company has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of September 30, 2015.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and demanded that PA-1 pay $8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA-1 did not make the payment and does not have the resources to make the payment demanded by Pennvest. PA-1 has commenced discussions and negotiations with Pennvest concerning this matter but Pennvest has rejected PA-1 s proposal made during the fall of 2014. Neither party has any formal proposal as of the date of this report. Subsequent discussions/negotiations have not led to any resolution of the outstanding matters as of this date. It is not possible at this date to predict the outcome of such negotiations, but the Company believes that a loan modification agreement may be reached that will allow PA-1 and Pennvest time for the development of a more robust market for nutrient reductions in Pennsylvania, of which there is no assurance. PA-1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

In connection with the Pennvest Loan financing documents, the Company provided a technology guaranty regarding nutrient reduction performance of Kreider 1 which was structured to expire when Kreider 1 s nutrient reduction performance had been demonstrated. During August 2012 the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 System had surpassed the requisite performance criteria and that the Company s technology guaranty was met. As a result, the Pennvest Loan is solely an obligation of PA-1.

8.

CONVERTIBLE NOTES PAYABLE - AFFILIATES:

January 2015 Convertible Notes

The January 2015 Convertible Notes accrue interest at 4% per annum and are due and payable on December 31, 2017. The January 2015 Convertible Notes (including accrued interest, plus all future deferred compensation), are convertible, at the sole election of the noteholder, into Units consisting of one share of the Company s common stock and one quarter warrant to purchase a share of the Company s common stock, at a price of $0.50 per Unit until December 31, 2020. The warrant contained in the Unit shall be exercisable at $1.00 per share until December 31, 2020. The original conversion price of $0.50 per Unit approximated the fair value of the Units at the date of the agreements; therefore no beneficial conversion feature exists. Management evaluated the terms and conditions of the embedded conversion features based on the guidance of ASC 815-15 Embedded Derivatives to determine if there was an embedded derivative requiring bifurcation. An embedded derivative instrument (such as a conversion option embedded in the deferred compensation) must be bifurcated from its host instruments and accounted for separately as a derivative instrument only if the risks and rewards of the embedded derivative instrument are not clearly and closely related to the risks and rewards of the host instrument in which it is embedded. Management concluded that the embedded conversion feature of the deferred compensation was not required to be bifurcated because the conversion feature is clearly and closely related to the host instrument, and because of the Company s limited trading volume that indicates the feature is not readily convertible to cash in accordance with ASC 815-10, Derivatives and Hedging .

As of September 30, 2015, the January 2015 Convertible Note balances, including accrued interest, owed Bassani, Smith and Schafer were $1,508,202, $783,188 and $389,566, respectively. During the three months ended September 30, 2015, the Company recorded interest expense of $26,248 related to the January 2015 Convertible Notes.

September 2015 Convertible Notes

During the three months ended September 30, 2015, the Company entered into September 2015 Convertible Notes with Bassani, Shafer and Shareholder which replaced the previously issued FY2015 Promissory Notes. The initial principal balances of the September 2015 Convertible Notes were $405,831, $16,382 and $82,921, respectively. The September 2015 Convertible Notes bear interest at 4% per annum, have maturity dates of December 31, 2017 and may be converted at the sole election of the noteholders into restricted common shares of the Company at a conversion price of $0.60 per share. As the conversion price of $0.60 approximated the fair value of the common shares at the date of the September 2015 Convertible Notes, no beneficial conversion feature exists. The Company recorded interest expense related to the 2015 Convertible Notes of $1,218 for the three months ended September 30, 2015.

9.

STOCKHOLDERS' EQUITY:

Series B Preferred stock:

At July 1, 2014, the Company had 200 shares of Series B redeemable convertible Preferred stock outstanding with a par value of $0.01 per share, convertible at the option of the holder at $2.00 per share, with dividends accrued and payable at 2.5% per quarter. The Series B Preferred stock is mandatorily redeemable at $2.00 per share by the Company three years after issuance and accordingly was classified outside of shareholders equity. The 200 shares have reached their maturity date, but due to the cash constraints of the Company have not been redeemed.

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During the years ended June 30, 2015 and 2014, the Company declared dividends of $2,000 and $2,000 respectively. During the three months ended September 30, 2015, the Company declared dividends of $500. At September 30, 2015, accrued dividends payable are $8,500.

Common stock:

Holders of common stock are entitled to one vote per share on all matters to be voted on by common stockholders. In the event of liquidation, dissolution or winding up of the Company, the holders of common stock are entitled to share in all assets remaining after liabilities have been paid in full or set aside and the rights of any outstanding preferred stock have been satisfied. Common stock has no preemptive, redemption or conversion rights. The rights of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of any outstanding series of preferred stock or any series of preferred stock the Company may designate in the future.

Centerpoint holds 704,309 shares of the Company s common stock. These shares of the Company s common stock held by Centerpoint are for the benefit of its shareholders without any beneficial interest. The Company accounts for these shares similar to treasury stock.

During the three months ended September 30, 2015, the Company issued 29,934 shares of the Company s common stock at prices ranging from $0.76 to $1.15 per share for services valued at $25,952, in the aggregate, to consultants and an employee.

During the three months ende