BION ENVIRONMENTAL TECHNOLOGIES INC
Form 10-Q
February 04, 2016

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 December 31, 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 February 1, 2016, there were 22,967,245 Common Shares issued and 22,262,936 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

December 31,

June 30,

2015

2015

(Unaudited)

ASSETS

Current assets:

Cash	$ 178,451	$ 339,286
Promissory note receivable (Note 4)	35,000	-
Prepaid expenses	12,350	18,503
Subscription receivable (Note 9)		

-

13,125

Deposits and other receivables

7,108

7,108

Total current assets

232,909

378,022

Property and equipment, net (Note 3)	1,829,508	1,977,219
Total assets	$ 2,062,417	$ 2,355,241

LIABILITIES AND EQUITY (DEFICIT)

Current liabilities:

Accounts payable and accrued expenses

$

1,479,267

$

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 $29,000 and $28,000, respectively

26,400

25,400

Notes payable affiliates, net of discount (Note 5)

-

472,230

Deferred compensation (Note 6)

1,170,731

839,288

Loan payable (Note 7)

7,754,000

7,754,000

Total current liabilities

10,430,398

10,444,086

Convertible notes payable affiliates, net of current portion (Note 8)	3,218,648	2,654,708
Total liabilities	13,649,046	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, 22,855,964

and 22,089,650 shares issued, respectively; 22,151,655 and

21,385,341 shares outstanding, respectively

-

-

Promissory note receivable for shares (Notes 4 and 9)

(71,878)

-

Additional paid-in capital

101,747,327

100,889,127

Accumulated deficit

(113,322,889)

	(111,696,060)
Total Bion s stockholders deficit	(11,647,440)
	(10,806,933)
Noncontrolling interest	60,811
	63,380
Total deficit	(11,586,629)

(10,743,553)

Total liabilities and deficit

$

2,062,417

$

2,355,241

See notes to consolidated financial statements.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

THREE AND SIX MONTHS ENDED DECEMBER 31,

2015 AND 2014

(UNAUDITED)

Three Months Ended

December 31,

Six Months Ended

December 31,

2015

2014

2015

2014

Revenue	
	$
	-
	$
	-
	$
	-
	$
	-

Operating expenses:

General and administrative (including stock-

based compensation (Note 9))

550,095

333,196

1,058,000

690,537

Depreciation

76,083

127,159

151,962

312,043

Research and development (including stock-based compensation (Note 9))

84,286

104,237

218,775

170,823

Total operating expenses	710,464
	564,592
	1,428,737
	1,173,403

Loss from operations	
	(710,464)
	(564,592)
	(1,428,737)
	(1,173,403)

Other expense:

Interest expense, net

86,405

100,356

200,661

197,303

86,405

100,356

200,661

197,303

Net loss

(796,869)

(664,948)

(1,629,398)

(1,370,706)

Net loss attributable to the noncontrolling

interest

1,274

1,028

2,569

2,099

Net loss attributable to Bion

(795,595)

(663,920)

(1,626,829)

(1,368,607)

Dividends on preferred stock

(500)

(500)

(1,000)

(1,000)

Net loss applicable to Bion's common

stockholders

$

(796,095)

$

(664,420)

$

(1,627,829)

$

(1,369,607)

Net loss applicable to Bion's common

stockholders per basic and diluted common

share

$

(0.03)

$

(0.03)

$

(0.07)

$

(0.07)

Weighted-average number of common shares

outstanding:

Basic and diluted	
	22,585,001
	19,965,459
	22,437,039
	19,891,267

See notes to consolidated financial statements.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

SIX MONTHS ENDED DECEMBER 31, 2015

(UNAUDITED)

Bion s Shareholders

Series C Preferred Stock

Common Stock

Shares

Amount

Shares

Amount

Additional

Paid-in Capital

Promissory Note Receivable for Shares

Accumulated Deficit

Non-controlling Interest

Total 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
-
-
36,296
-

100,904

-

-

-

100,904

Vesting of options for services

-

-

-

-

89,640

-

-

-

89,640

Modification of options

-

-

-

-

42,550

-

-

-

42,550

Sale of units

-

-

228,750

-

183,000

-

-

-

183,000

Commissions on sale of units

-

-

-

-

(18,300)

-

-

-

(18,300)

Warrants exercised for common stock

-

-

292,394

-

289,689

(71,878)

-

-

217,811

Dividend on Series B preferred stock

-

-

-

-

(1,000)

-

-

-

(1,000)

Conversion of debt

-

-

208,874

-

171,717

-

-

-

171,717

Net loss

-

-

-

-

-

-

(1,626,829)

(2,569)

(1,629,398)

Balances, December 31, 2015

-

$

-

22,855,964

$

-

$

101,747,327

$ (71,878)

$

(113,322,889)

$ 60,811

$

(11,586,629)

See notes to consolidated financial statements.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED DECEMBER 31, 2015 AND 2014 (UNAUDITED)

2015

2014

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss	$ (1,629,398)	$ (1,370,706)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense		

151,962

312,043

Accrued interest on deferred compensation and other

200,940

189,573

Stock-based compensation

233,094

31,043

Decrease in prepaid expenses

6,153

5,341

Increase in accounts payable and accrued expenses

27,351

225,779

Increase in deferred compensation and convertible notes

490,800

312,000

Net cash used in operating activities

(519,098)

(294,927)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(4,251)	-
Net cash used in investing activities	(4,251)	-

CASH FLOWS FROM FINANCING ACTIVITIES

Decrease in subscription receivable

13,125

30,000

Proceeds from sale of common stock

-

26,250

Proceeds from sale of units

183,000

67,500

Commissions on sale of units

(18,300)

-

Payment from exercise of warrants

184,689

-

Net cash provided
by financing activities

362,514

123,750

Net decrease in cash	
	(160,835)
	(171,177)
Cash at beginning of period	
	339,286

186,148

Cash at end of period

$

178,451

$

14,971

Supplemental disclosure of cash flow information:

Cash paid for interest

$

-

$

-

Non-cash investing and financing transactions:		
Series B preferred stock dividends accrued	$ 1,000	$ 1,000
Issuance of common stock to satisfy deferred compensation	$ 171,717	$

-

Exercise of warrants for promissory note receivable for shares

$

105,000

$

-

See notes to consolidated financial statements.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 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 (and/or at nearby locations), 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 and 2015 fiscal years, the Company increased its research and development activities with focus on augmenting the basic separate and aggregate approach of its technology platform to provide additional flexibility and to increase recovery of nutrient by-products (in organic and non-organic forms) and renewable energy production (either/both biogas and/or renewable electricity), thereby increasing potential related revenue streams and reducing dependence of its future projects on nutrient reduction credits (which still remain a very important part of project revenue streams). This research and development effort also involves ongoing review of potential add-ons and applications to our technology platform for use in different regulatory and/or climate environments. These research and development activities continued through the balance of 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.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

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 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 acquire 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 the Kreider 1 project will generate revenue primarily from the sale of nutrient reduction (and/or other) environmental credits while the Kreider Phase 2 poultry waste treatment system (Kreider 2)(not yet constructed) and other future projects will supplement its revenue from nutrient reductions with proceeds from multiple byproduct streams including i) feed additives and/or fertilizer (organic and non-organic) and ii) renewable energy (and related credits), which sales are projected to generate, in aggregate, revenue streams that, in certain circumstances, may approach 50% of total revenues. 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.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

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 December 31, 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 engaged in on/off discussions and negotiations with Pennvest concerning this matter but no such discussions/negotiations are currently active. Neither party has any formal proposal on the table as of the date of this report. 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 result in a viable 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.

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 Kreider 2, which primarily relates to treatment of the wastes from Kreider s poultry operations. Assuming there are positive developments related to the market for nutrient reductions 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 2017. 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 which are anticipated to constitute the largest share of its revenues.

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.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

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 $1,629,000 during the six months ended December 31, 2015. At December 31, 2015, the Company has a working capital deficit and a stockholders deficit of approximately $10,197,000 and $11,647,000, 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 which reduction has negatively impacted the Company s business development efforts.

During the six months ended December 31, 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 six months ended December 31, 2015, resulting in cash proceeds of $174,189 and receipt of a $105,000 interest bearing, collateralized promissory note receivable for shares. In January 2016, the Company received $35,000 of the promissory note receivable for shares.

During the six months ended December 31, 2015, the Company sold units of the Company s restricted securities for $0.80 per unit, with each unit consisting of one share of the Company s restricted common stock and one warrant to purchase one half of a share of the Company s restricted common stock for $1.10 per share until June 30, 2017. During the six months ended December 31, 2015, the Company had sold a total of 228,750 units for gross proceeds of $183,000, and net proceeds of $164,700 after commissions of $18,300.

During fiscal years 2015 and 2014 and through the six months ended December 31, 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.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

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 limited and 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 December 31, 2015, and the results of operations and cash flows of the Company for the three and six months ended December 31, 2015 and 2014. Operating results for the three and six months ended December 31, 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

SIX MONTHS ENDED DECEMBER 31, 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 six months ended December 31, 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:

	December 31,
	2015

	December 31, 2014
Warrants	8,396,364
	7,757,653
Options	4,513,870
	3,911,370
Convertible debt	7,562,213
	5,583,740
Convertible preferred stock	14,500
	13,500

The following is a reconciliation of the denominators of the basic loss per share computations for the three and six months ended December 31, 2015 and 2014:

Three months

ended

	December 31, 2015 Three months ended	December 31, 2014 Six months ended	December 31, 2015 Six months ended	December 31, 2014
Shares issued beginning of period	22,606,852	19,787,068	22,089,650	19,576,619
Shares held by subsidiaries (Note 9)	(704,309)	(704,309)	(704,309)	(704,309)

Shares outstanding beginning of period

21,902,543

19,082,759

21,385,341

18,872,310

Weighted average shares for fully

vested stock bonuses (Note 9)

652,989

840,000

626,495

840,000

Weighted average shares issued

during the period

29,469

42,700

425,203

178,957

Basic weighted average shares

end of period

22,585,001

19,965,459

22,437,039

19,891,267

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.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED DECEMBER 31, 2015

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:

	December 31, 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	177,931	175,248
	4,486,633	4,483,950
Less accumulated depreciation	(2,657,125)	(2,506,731)
	$1,829,508	$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 December 31, 2015, management believes that no additional impairment exists.

Depreciation expense was $76,083 and $127,159 for the three months ended December 31, 2015 and 2014, respectively, and $151,962 and $312,043 for the six months ended December 31, 2015 and 2014, respectively.

4.

PROMISSORY NOTE RECEIVABLE:

During the six months ended December 31, 2015, the Company re