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BION ENVIRONMENTAL TECHNOLOGIES INC

Form 10-K/A

November 12, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
AMENDMENT NO. 1

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the Fiscal Year ended: June 30, 2009

OR

[] 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.

(Exact Name of Registrant as Specified in its Charter)

COLORADO

84-1176672

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identi-
fication No.)

Box 566/1774 Summitview Way, Crestone, Colorado 81131

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including area code: (212) 758-6622

Securities Registered Pursuant to Section 12(b) of the Act:

Table with 2 columns: Title of Each Class, Name of Each Exchange on Which Registered. Row 1: None, N/A

Securities Registered Pursuant to Section 12(g) of the Act:

COMMON STOCK, NO PAR VALUE
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as
defined in Rule 405 of the Securities Act. [] YES [X] NO

Indicate by check mark if the registrant is not required to file reports
pursuant to Section 13 or Section 15(d) of the Act. [] YES [X] NO

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

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registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). N/A

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

The aggregate market value of the approximately 5,500,000 shares of voting stock held by non-affiliates of the Registrant as of December 31, 2008 approximated \$5.5 million. As of November 12, 2009, the Registrant had 12,452,111 shares of common stock issued and 11,747,802 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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EXPLANATORY NOTE REGARDING AMENDMENT TO FORM 10-K

This Amendment No. 1 on Form 10-K/A (the "Amendment") amends the Annual Report on Form 10-K of Bion Environmental Technologies, Inc. (referred to herein as the "Company", "we", "us", and "our") for the fiscal year ended June 30, 2009, originally filed with the Securities and Exchange Commission ("SEC") on September 23, 2009 (the "Original Annual Report"). This Amendment includes restated June 30, 2009 consolidated financial statements (and related disclosures) (included in Part II, Item 8). The restatement to the previously filed June 30, 2009 consolidated financial statements was made to correct a classification error in the presentation of our Series B preferred stock. The restatement adjustment resulted in a reduction in stockholders' equity of \$1,867,716 and an increase in temporary equity (an amount presented 'outside' of permanent stockholders' equity) of the same amount. As a result of this restatement, other Items included in this Form 10-K/A include changes to conform to the reclassification restatement. The effect of the restatement had no impact on the Company's previously reported net loss, net loss applicable to common stockholders, net loss per basic and diluted common share or cash flows.

Except as described above, no attempt has been made to this Amendment to

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modify or update other disclosures presented in the Original Annual Report. This Amendment does not reflect events occurring after the filing of the Original Annual Report, or modify or update those disclosures, including the exhibits to the Original Annual Report, affected by subsequent events. Accordingly, this Amendment should be read in conjunction with our filings with the SEC subsequent to the filing of the Original Annual Report.

The following items in the Original Annual Report have been amended as a result of the reclassification of the Series B Preferred Stock:

Part I: Item 1. Business

Part II: Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 8. Financial Statements and Supplementary Data

Item 9A. Controls and Procedures

Part IV: Item 15. Exhibits and Financial Statement Schedules

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K/A (and the documents incorporated herein by reference) contain 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.

Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the following:

- * changes in political, regulatory and economic climates;
- * changes in legal and/or regulatory environment;
- * industry risks, including environmental related problems;
- * the ability of the Company to implement its business strategy;
- * the Company's limited financial and management resources and ability to raise additional needed funds and/or hire needed personnel;
- * the extent of the Company's success in developing and operating the Integrated Projects;
- * engineering, mechanical or technological difficulties with operational equipment;
- * operating variances from expectations;
- * the substantial capital expenditures required for construction of the Company's proposed CAFO retrofit projects and Integrated Projects and the related need to fund such capital requirements through commercial banks and/or public or private securities markets;
- * the need to develop and re-develop technology and related applications;
- * dependence upon key personnel;
- * the lack of liquidity of the Company's equity securities;
- * operating hazards attendant to the environmental clean-up, CAFO and renewable energy production, food processing and biofuel industries;
- * potential mechanical failure or under-performance of equipment;

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- * climatic conditions;
- * availability and cost of material and equipment;
- * delays in anticipated start-up dates;
- * availability of capital in the current 'distressed' financial markets;
- * the strength and financial resources of the Company's competitors; and
- * general economic conditions, including the current recession and its effects on the national and international capital markets .

We do not undertake, and specifically disclaim any obligation, to publicly release the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

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PART I

ITEM 1. BUSINESS.

GENERAL

Bion Environmental Technologies, Inc.'s ("Bion," "Company," "We," "Us," or "Our") patented and proprietary technology provides a comprehensive environmental solution to a significant source of pollution in US agriculture, Confined Animal Feeding Operations ("CAFO's"). Bion's technology is "comprehensive" in that it surpasses current environmental regulations for both nutrient releases to water and air emissions from livestock waste streams based upon our research to date. Because Bion's technology reduces the harmful emissions from a CAFO on which it is utilized, the CAFO can increase its herd concentration while lowering or maintaining its level of nutrient releases and atmospheric emissions.

During 2008 the Company reorganized its management team to pursue its business plan through two operating subsidiaries in order to focus on its two related but distinct business opportunities: 1) Bion Services Group, Inc. ('Services Group') will utilize Bion's technology to provide environmental waste treatment (often with renewable energy production from the waste stream) for existing livestock facilities through retrofit of pre-existing facilities; and 2) Bion Integrated Projects Group, Inc. ('Projects Group') will utilize Bion's patented technology to develop new, state-of-the-art, 'closed loop' livestock facilities integrated with related agriculture activities such as food processing and biofuels production in Integrated Projects (as defined below).

Services Group is proceeding with its initial projects at Kreider Farms in Pennsylvania as described below. Projects Group is moving forward with pre-development activities for its initial Integrated Project in upstate New York and preliminary work with other potential projects.

We believe that Bion's technology platform creates the opportunity to profitably integrate 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 technology, in addition to mitigating polluting releases to water and emissions to air, generates renewable energy from portions of the CAFO waste stream which renewable energy can be utilized by integrated ethanol plants, CAFO end-product processors (including cheese, ice cream and /or bottling plants in the case of dairy CAFOs and/or slaughter

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and/or processing facilities in the context of beef CAFOs) and/or other users as a replacement for fossil fuel energy. Note that an integrated ethanol plant's main by-product, called distillers grain, can be added to the feed of the animals in wet form thereby potentially lowering the capital expenditures, operating, marketing and shipping costs and energy usage of the ethanol production process. The integrated ethanol plant(s) will act as a feed mill for the CAFO, thus reducing the CAFO's feeding costs and generating revenue to the ethanol plant, and also provides a market for the renewable energy that Bion's System (defined below) produces from the CAFO waste

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stream. Thus, such Bion Integrated Projects can be denominated "closed loop". Bion, as developer of and participant in Integrated Projects, anticipates that it will share in the cost savings and revenue generated from these activities.

From fiscal 2004 through early 2008, the Company primarily focused its activities on completing re-development of its technology platform and refining its business model. As such, we elected not to pursue near term revenue opportunities such as retrofitting existing CAFO's with our first generation (and transitional versions) waste management solutions, because such efforts would have diverted scarce management and financial resources and negatively impacted our ability to complete: 1) re-development of our technology for environmentally sound treatment of CAFO waste streams, 2) development of our integrated technology platform in support of large-scale sustainable Integrated Projects and 3) finalizing a business model to commercially utilize our technology. Since mid-2008, with the substantial completion of the technology/business model re-development process, Bion has been simultaneously pursuing both retrofit/remediation and Integrated Project development opportunities based on its patented and proprietary waste handling/renewable energy technology ("Bion System" or "System") and its technology platform based on its core technology.

The Company is focusing its efforts on both the CAFO retrofit/remediation market and on development and operation of Integrated Projects. The Integrated Projects development opportunity is being primarily pursued through our Projects Group subsidiary which will focus on development of numerous Integrated Projects in multiple states. The CAFO/environmental remediation opportunity is being pursued primarily through our Services Group subsidiary which will also provide design, engineering and construction and project management services to the Projects Group. We anticipate that most projects undertaken by the Company in which we retain ownership interests (whether retrofit or Integrated Projects) will be pursued through 'special purpose' entities. Bion PA 1 LLC, through which we are developing the Bion System required by Phase 1 of the Kreider project, is the first of such entities.

The Company's consolidated financial statements for the years ended June 30, 2009 and 2008 included herein have been prepared assuming the Company will continue as a going concern. The Company has not recorded any revenue from operations for either of the years ended June 30, 2009 or June 30, 2008. The Company has incurred net losses of approximately \$1,312,000 and \$1,779,000 during the years ended June 30, 2009 and 2008, respectively. The Company had a working capital surplus and stockholders' deficit, respectively, of approximately \$515,000 and \$1,125,000 as of June 30, 2009. The report of the independent registered public accounting firm on the Company's consolidated financial statements as of and for the years ended June 30, 2009 and June 30, 2008 includes a "going concern" explanatory paragraph, which means that there are factors that raise substantial doubt about the Company's ability to continue as a going concern.

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PRINCIPAL PRODUCTS AND SERVICES

Currently, Bion is focused on using applications of its patented waste management technology to pursue two large opportunities: 1) retrofit and

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environmental remediation of existing CAFOs (pursued through Services Group) and 2) development of Integrated Projects (pursued through Projects Group).

Bion's Services Group, building upon our redeveloped technology and Bion's 15 years' of experience providing waste treatment services to the livestock industry with its first generation technology applications, is pursuing the opportunity related to retrofit and environmental remediation of existing CAFOs. Our technology has evolved and been upgraded over the last five years to meet changing standards and requirements. Bion's re-developed technology platform creates a potentially profitable business opportunity to provide waste treatment services and systems and/or renewable energy production capability to existing livestock operations - of which there are many. Early candidates for these solutions include individual CAFO facilities that face impending regulatory action, CAFOs that wish to expand or relocate, and operations located in regions that suffer severe and immediate environmental issues, such as the Chesapeake Bay watershed or the San Joaquin Valley, where financial incentives are (or may become) available that encourage voluntary reductions of nutrient releases and/or atmospheric emissions from agricultural sources. The Company's Kreider Farms projects in Pennsylvania in the Chesapeake Bay watershed represent the Company's first new endeavors in this market segment. These installations, if and when completed, will reduce nitrogen releases and ammonia emissions from the dairy and poultry waste streams to generate tradable nutrient reduction credits as part of a nutrient credit trading program through the PA Department of Environmental Protection. Phase 2 of the Kreider project, which is in its early development and permitting phase, will treat the recovered cellulosic solids from Kreider's dairy waste and the waste stream from Kreider's poultry operations to generate renewable energy and tradable credits.

Bion's Projects Group is pursuing the opportunity related to development of Integrated Projects which will include large CAFOs (such as large dairies, beef cattle feed lots and/or hog farms) with Bion waste treatment System modules processing the aggregate CAFO waste stream from the equivalent of 20,000 to 80,000 (or more) beef or dairy cows (or the waste stream equivalent of other species) while producing solids to be utilized for renewable energy production (and possibly to be marketed as feed and/or fertilizer), integrated with CAFO end product users/processing facilities and/or a biofuel/ethanol plant capable of producing 20 million to 40 (or more) million gallons of ethanol per year. Such Integrated Projects will involve multiple CAFO modules of 10,000 or more beef or dairy cows (or waste stream equivalent of other species) on a single site and/or on sites within an approximately 30 mile radius. Bion believes its technology platform will allow integration of large-scale CAFO's with end product processors and/or ethanol production together with renewable energy production from waste streams and on-site energy utilization in a 'closed loop' manner that reduces the capital expenditures and operating costs for the entire Integrated Project and each component facility. Some Projects may be developed from scratch while others may be developed in geographic proximity of existing participating CAFOs, ethanol plants and/or end product processors.

During the 2008 fiscal year, Bion began pre-development work on an Integrated Project planned to include a large-scale beef cattle finishing operation, a beef processing facility and an ethanol production facility to

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be located in upstate New York. Progress has been made in the pre-development process and the Company currently believes there is a significant likelihood

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that we will option land and move into the development process during the next six months. In addition to the NYS beef cattle project, Bion has been working with various local and state agencies in Nebraska to develop a large scale integrated dairy/cheese Integrated Project (which would be integrated with one or more existing ethanol plant(s)). This project is in its early stages.

Bion is currently working with local, state and federal officials and with potential industry participants to evaluate opportunities and/or sites for additional Projects and/or System installations in multiple states including without limitation New York, Nebraska, Pennsylvania, California, Indiana and other states. The Company anticipates selecting a site for its initial Integrated Project (and possibly additional Integrated Projects) during the current fiscal year. Bion intends to commence development of its initial Integrated Project during the 2009 fiscal year by optioning land and beginning the permitting process.

In addition, Bion intends to choose sites for additional Projects through calendar years 2009-11 to create a pipeline of Projects. Management has a 5-year development target (through fiscal year 2015) of approximately 12-24 Integrated Projects. At the end of the 5-year period, Bion projects that 8-12 of these Integrated Projects will be in full operation in 3-8 states, and the balance would be in various stages ranging from partial operation to early development stage. No Integrated Project has been developed to date.

As part of our minor functional re-structuring to pursue the two opportunities set forth herein, during October 2008 we re-deployed our management/technology team roughly as follows: 1) our President, Mark A. Smith, serves as President of Services Group the activities of which are under the direct supervision of Jeremy Rowland, its Chief Operating Officer, James Morris, our Chief Technology Officer and George Bloom, our Chief Engineering Officer. Jere Northrop, our Senior Technology Director, assists Services Group; and 2) Mark A. Smith serves as President of Projects Group supervising the activities of Services Group personnel in this area and Dominic Bassani, its Vice President-Special Projects and Strategic Planning (who also consults to the Services Group and other Bion entities).

The Company's successful accomplishment of its business activities is dependent upon many factors including without limitation the following, neither of which can be assured at this date:

- * Successful development and completion of the first Project to demonstrate the operation of a fully integrated, environmentally compliant, Bion-based CAFO/ethanol Project at a profitable level; and
- * Our ability to raise sufficient funds to allow us to finance our activities.

INDUSTRY BACKGROUND

The traditional business model for CAFO's, regardless of livestock type, has relied on a combination of: 1) a passive environmental regulatory regime, and 2) access to a relatively unlimited supply of cheap land and water to serve as the basis for "environmental" treatment of animal waste. Such land

and water resources have now become significantly more expensive while ongoing consolidation of the CAFO industry has produced substantially increased and more concentrated waste streams. At the same time, regulatory scrutiny of, and public concern about, the environmental impact from CAFO's has intensified greatly.

Agricultural runoff is the largest water pollution problem in the United States. Over-application of animal waste to cropland has resulted in manure nutrients polluting surface and ground water systems, adversely impacting water quality throughout the country including the Chesapeake Bay, the Great Lakes and the Gulf of Mexico 'Dead Zone'. Clean-up initiatives for the Chesapeake Bay, the Great Lakes and elsewhere are requiring the expenditure of substantial sums of money to reduce excess nutrient pollution. In each such case, agriculture in general and CAFO's in particular have been identified among the main contributors of pollution. CAFO's are also significant emitters of pollutants to air, with dairy CAFO's having been identified as the largest contributor to airborne ammonia and other polluting gases in the San Joaquin Valley and elsewhere and among the largest contributors to nutrient pollution of the Chesapeake Bay. Note that a substantial volume of the nitrogen released to the atmosphere from CAFO waste streams as ammonia and other nitrogen gases emitted by CAFOs is then re-deposited to the ground and then adds to nitrogen pollution of surface and ground water systems. Bion believes that its patented and proven technology offers the only comprehensive solution to the environmental impacts of these concentrated livestock waste streams.

We believe Bion's technology can enable increased CAFO herd concentration that is economically and environmentally sustainable because the technology removes nutrients from the waste streams generated by animal operations while dramatically reducing atmospheric emissions. The resulting herd concentration potentially creates reduced marginal costs for the CAFOs and results in a core Bion technology platform that integrates environmental treatment and renewable energy production and utilization with ethanol production.

Bion's technology platform and the resulting herd concentration, in turn, potentially provide the opportunity to integrate a number of revenue generating operations while maximizing the realized value of the renewable energy production. The Bion Integrated Project model will access diversified revenue streams through a balanced integration of technologies to provide a hedge of the commodity risks associated with any of the separate enterprises. We believe that Bion's Integrated Projects may generate revenues and profits from one or more of the following items:

- * Waste processing and technology licensing fees;
- * Fees related to permanently integrated utilization of the wet distiller grains, which are a by-product of ethanol production;
- * Renewable energy production from the waste streams combined with utilization of the energy produced within the Integrated Projects; and
- * Ethanol production;
- * Various "environmental" credits.

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Exactly what fees and revenues accrue to Bion will depend on the nature of Bion's participation in each Integrated Project and on negotiations with other participants in such Projects. If Bion is simply the operator of its waste System within an Integrated Project that it develops, it would probably generate revenue from: a) waste processing and technology licensing fees charged to the CAFO, b) sales of the fertilizer and/or other products generated from the waste treatment process, c) sales of renewable energy to the ethanol plant and/or other facilities, d) fees related to the utilization of the wet distillers grain made possible by the integration, and e) fees for its "developer" role. If Bion also participates in the ownership and/or operation of the ethanol plant, it would further generate revenue from sales of ethanol and sales of feed products to the CAFO. Sales of distillers grain as feed products generally represent 14-20% of the total revenues of an ethanol plant if there is an available market for the distillers grain. If Bion participates in ownership and/or operation of the integrated CAFO (and its facilities), it would generate revenues from the sale of the CAFO's end products. While it is possible that Bion would have a uniform ownership interest throughout a Project, it is likely that in many cases Bion will have differing ownership interests (from 0% to 100%) in each component of an Integrated Project.

We believe that our technology platform and the proposed Projects do not involve significant technology risk. Our waste handling technology has been utilized efficiently in the past and has been verified by peer-reviewed data. The other Project components required for an integrated operation, such as CAFO facilities, ethanol plants and solids separation, drying and combustion equipment, all consist of available and fully-tested processes and equipment that do not pose any experimental challenges once properly sized, selected and installed. It is Bion's ability to integrate the component parts in a balanced proportion with large CAFO herds and ethanol production in an environmentally sustainable manner that creates this unique economic opportunity. Bion has a patent pending relating to the Bion integration model described herein.

Bion has identified three primary market opportunities to potentially develop Integrated Projects depending on the facilities that exist in a given geographic region:

Existing Processing: Our technology enables newly-permitted livestock herds to be located near existing beef or dairy processing plants. A dedicated herd with Bion environmental treatment will potentially create the opportunity for the processor to brand finished products as being 'environmentally-responsible,' 'Green,' or 'locally-grown,' as well as provide single sourcing for inputs resulting in improved food safety, security and accountability. Locating the herd in close proximity to the existing processing plant will likely substantially reduce transportation cost and the processing plant can purchase and utilize the renewable energy Bion produces from the CAFO wastes.

Existing Ethanol: Newly-permitted livestock herds can be located near existing ethanol plants that are struggling in the current economic environment. In Bion's closed-loop livestock/ethanol model, a corn ethanol plant serves as a feed mill for the livestock herd, the ethanol

plant(s) provides its distiller grain co-product to supplement the herd's ration, eliminating the ethanol plant's traditional costs to dry, market and ship its distiller grains. The ethanol plant(s) becomes an onsite/local consumer of the renewable energy generated from the herd's

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waste that replaces all of the remaining fossil fuel requirements of the ethanol plant. Efficiency can be significantly increased since integration enables three 'shots' at the corn: first ethanol is produced from it, then it is fed to the cows, then renewable energy is produced from the leftover cellulosic biomass extracted from the livestock waste stream. Integration with Bion's technology platform has the potential to more than triple the energy efficiency of corn ethanol production, improving the generally-accepted net energy balance of 1.4 to 1 to approximately 4-5 to 1 (based on the Argonne National Laboratories GREET model assessment of a similar integrated, closed-loop project) - close to the efficiency targets publicly discussed for future cellulosic ethanol production.

Greenfield Projects: Bion will develop new state-of-the-art Projects in selected locations that maximize economic advantages of the Projects' partners. Bion's partners in these Projects will potentially realize increased productivity and profits by capitalizing on the operational and resource efficiencies of integration as described elsewhere herein. Additionally, the facilities and processes of Greenfield Project participants will be optimized to provide the greatest benefit to the Project as a cooperative enterprise. Further market advantages may result from strategic location, such as proximity to high-value product markets, product branding, and economic development incentives, subsidies and tax credits.

Although we have developed the structure and basic design work related to Integrated Projects, we have not yet actually developed or operated an Integrated Project. Further, we have not completed the development of all of the System applications that will be necessary to address all targeted markets (such as swine, poultry, etc.) and all geographic areas and we anticipate a continuing need for the development of additional applications and more efficient integration.

The basic integration in a fully integrated Project will probably include:

- * An ethanol plant and CAFO combination sized to balance the distillers grain by-product of the ethanol production with the feed requirements of the CAFO herd and to meet or exceed the energy needs of the ethanol plant with the renewable energy produced by Bion from the CAFO waste stream. Beyond the production of ethanol, the ethanol facility will function as a feed mill for the CAFO herd which will utilize the spent grain from ethanol production in its feed ration, materially reducing the operating expenses (energy and transportation) and capital expenditure requirements (for items such as dryers) and increasing the net energy efficiency of ethanol production;
- * Additionally, the ethanol plant is potentially a source of waste heat (which, if not productively utilized, would increase ethanol production costs for required disposal) to be used to maintain

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temperatures throughout the co-located Bion System. In colder climates, additional uses of this waste heat will potentially include heating some of the CAFO or other integrated facilities;

- * Processing, drying and combusting the coarse solids portion of the CAFO's manure stream to produce heat used for solids drying and to replace natural gas usage by the ethanol production process and

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other co-located facilities;

- * Drying and processing of the fine solids portion of the CAFO's waste stream (if any) into a value-added, marketable, organic fertilizer and/or high protein feed product ingredients; and
- * Co-located end-product production facilities (cheese and/or other dairy processors, beef processing facilities, etc.) that will utilize the output of the CAFO and consume renewable energy produced from the CAFO waste stream.

In order to implement this plan, Bion will need to work with CAFO's, ethanol producers and/or end-product processors to generate multi-party agreements pursuant to which the Integrated Projects will be developed and which will provide that at least the following take place: a) the CAFO and ethanol plant (and other facilities) agree to locate in geographic proximity to each other, b) Bion licenses, constructs and operates its System to process the CAFO's waste stream and produce renewable energy and other products therefrom, c) the CAFO agrees to purchase and utilize the wet distillers grain by-product of the ethanol plant in its feed ration and d) the ethanol plant and/or end product facilities agree to purchase and utilize the renewable energy produced by Bion from the CAFO waste stream in the place of natural gas or other energy purchases. These agreements could be in the form of joint ventures, in which all parties share the cost and ownership of all facilities in the Integrated Project (in negotiated uniform or varied manners across the various facilities), or in other forms of multi-party agreements including agreements pursuant to which Bion would bear the cost of construction of its System and the owners of the CAFO and the ethanol plant would bear the cost of construction of the CAFO facilities and ethanol plant, respectively, and negotiated contractual arrangements would set forth the terms of transfer of products (wet distillers grain, combustible dried solids, etc.), energy and dollars among the parties.

CORPORATE BACKGROUND

The Company is a Colorado corporation organized on December 31, 1987. Our principal executive offices are located at residence of our president at 1774 Summitview Way, Crestone, Colorado 81131. Our primary telephone number is 212-758-6622. We have no additional offices at this time.

DEVELOPMENT OF OUR BUSINESS

Substantially all of our business and operations to date has been conducted through wholly owned subsidiaries, Bion Technologies, Inc. (a Colorado corporation organized September 20, 1989), Bion Integrated Projects Group, Inc. ("Projects Group") (formerly Bion Dairy Corporation ("Bion Dairy") through August 2008 and originally Bion Municipal, Inc., a Colorado corporation organized July 23, 1999) and Bion Services Group, Inc. ("Services

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Group") (formerly Bion International, Inc., a Colorado corporation organized July 23, 1999) and BionSoil, Inc. (a currently inactive Colorado corporation organized June 3, 1996). Bion is also the parent of Dairy Parks, LLC (an inactive Delaware entity organized July 25, 2001) and Bion PA 1 LLC (a Colorado entity organized August 14, 2008). In January 2002, Bion entered into a series of transactions whereby the Company became a 57.7% (now 58.9%) owner of Centerpoint Corporation (a Delaware corporation organized August 9, 1995) ("Centerpoint").

Although we have been conducting business since 1989, we determined that

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we needed to redefine how we could best utilize our technology during 2003. From 2003 through early 2008, we primarily worked on technology improvements and applications and in furtherance of our business model of Integrated Project development. During 2008 we re-commenced pursuing active commercial transactions involving installation of our Systems for CAFO waste treatment and related environmental remediation and initiation of development of our initial Integrated Projects.

Our original systems were wastewater treatment systems for dairy farms and food processing plants. The basic design was modified in late 1994 to create Nutrient Management Systems ("NMS") that produced organic soil products as a byproduct of remediation of the waste stream when installed on large dairy or swine farms. Through June 30, 2002, we sold and subsequently installed, in the aggregate, approximately 30 of these first generation systems in 7 states, of which we believe approximately 10 are still in operation in 3 states. We discontinued marketing of our first generation NMS systems during fiscal year 2002 and turned control of the first generation systems over to the farms on which they were installed over the following two years. We were unable to produce a business model based on the first generation technology that would generate sufficient revenues to create a profitable business. While continuing to market and operate the first generation systems, during the second half of calendar year 2000, we began to focus our activities on developing the next generation of the Bion technology. We no longer operate or own any of the first generation NMS systems.

As a result of our research and development efforts, the core of our current technology was re-developed during fiscal years 2001-2004. We designed and tested Systems that use state-of-the-art, computerized, real-time monitoring and system control with the potential to be remotely accessed for both reporting requirements and control functions. These Systems are smaller, faster and require less capital per animal than our first generation NMS systems. The initial versions of our new generation of Bion Systems was designed to harvest solids used to produce organic fertilizer and soil amendments or additives (the "BionSoil(R) products") in a few weeks as compared to six to twelve months with our first generation systems.

During 2003-4 we designed, installed and began testing a commercial scale, second generation Bion System as a temporary modification or retrofit to a waste lagoon on a 1,250 milking cow dairy farm in Texas known as the DeVries Dairy. In December 2004, Bion published an independently peer-reviewed report, a copy of which may be found on our website, www.biontech.com, with data from the DeVries project demonstrating a reduction in nutrients (nitrogen and phosphorus) of approximately 75% and air emissions of approximately 95%. More specifically, those published results

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indicated that on a whole farm basis, the Bion System produced a 74% reduction of nitrogen and a 79% reduction of phosphorus. The air results show that the Bion System limited emissions as follows: (in pounds per 1,400 pound dairy cow per year):

| | |
|------------------------------|------|
| * Ammonia | 0.20 |
| * Hydrogen Sulfide | 0.56 |
| * Volatile Organic Compounds | 0.08 |
| * Nitrogen Oxides | 0.17 |

These emissions represented a reduction from published baselines of 95%-99%.

Through 2007 the demonstration project at the DeVries Dairy in Texas

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also provided Bion with the opportunity to explore mechanisms to best separate the processed manure into streams of coarse and fine solids, with the coarse solids supporting generation of renewable energy and the fine solids potentially becoming the basis of organic fertilizer products and/or a high protein animal feed ingredients. On-going research was also carried out on various aspects of nutrient releases and atmospheric emissions.

Bion discontinued operation of the DeVries demonstration research system during 2008.

During 2005-2007, Bion focused on completing development of its technology platform and business model. As such, we did not pursue near term revenue opportunities such as retrofitting existing CAFO's with interim versions of our waste management solutions, because such efforts would have diverted scarce management and financial resources and negatively impacted our ability to complete development of an integrated technology platform in support of large-scale sustainable Integrated Projects.

We are currently pursuing two large market opportunities: 1) retrofit and environmental remediation of existing CAFOs and 2) development of Integrated Projects as described above.

We believe significant retrofit opportunities exist that will enable us to generate additional future revenue streams from Bion's technology. The initial retrofit opportunities we are pursuing are related to the existing clean-up program for the Chesapeake Bay ('Chesapeake Bay Program' or 'CB Program').

Chesapeake Bay Watershed: Kreider Farms Projects

The urgency and priority of the Chesapeake Bay Program was made clear recently with President Obama's executive order to clean up the Chesapeake Bay and the appointment of Chuck Fox by EPA Secretary Lisa Jackson to act as a "czar" for CB cleanup efforts. The overall mission has been defined as requiring a 140 million pound annual reduction from the existing nitrogen (N) loading to the Chesapeake Bay (from 315 million lbs of N to 175 million pounds of N per year) by 2025. More importantly, the timetable for compliance has been moved up, with greater reductions required in the early years rather than the old approach of backend loading the reductions. For example, as a result of the changes, Pennsylvania's near term 2012 N reduction is being increased by 2M lbs. Similar increases have been imposed on other states (Maryland and Virginia) in the Chesapeake Bay watershed. As a result, Bion believes that its long term opportunity related to the Chesapeake Bay Program is being significantly expanded and extended.

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During 2008 Bion executed an agreement to install a Bion System at the Kreider Dairy in Lancaster County, Pennsylvania to reduce nitrogen (including ammonia emissions which are re-deposited as nitrogen from the atmosphere) and phosphorus in the farm's effluent. Bion undertook this project due in large part to Pennsylvania's nutrient credit trading program, which was established to provide cost-effective reductions of the excess flow of nutrients (nitrogen and phosphorus) into the Chesapeake Bay watershed. Bion worked extensively with the Pennsylvania Department of Environmental Protection ('PADEP') over the past year to establish a nutrient credit calculation/verification methodology that is appropriate to Bion's proven technology and recognizes its 'multi-media' (both water and atmospheric) approach to nutrient reductions. Pennsylvania's nutrient credit trading program allows for voluntary credit trading between a 'non-point source' (such as a dairy or other agricultural sources) and a 'point source' polluter, such as a

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municipal waste water treatment plant or a housing development. For example, pursuant to this program, Bion can reduce the nutrients from an existing dairy (below its baseline discharge levels) much more cost-effectively than a municipal wastewater treatment plant can reduce nutrients to meet its baseline. The municipal facility can purchase credits from Bion to offset its nutrient discharges, rather than spending significantly more money to make the plant upgrades necessary to achieve its own reductions.

During May 2008, the PADEP approved Bion's protocols to determine how many tradable nutrient (nitrogen and phosphorus) credits Bion will receive for nutrient reductions achieved through installation of its comprehensive dairy waste management technology in Phase 1 of the Kreider project pursuant to Pennsylvania's efforts under the Chesapeake Bay Program mandates. The DEP's approval includes Bion's innovative multi-media measurement protocol, enabling the certification of credits both for ammonia air emission reductions as well as significantly reducing the leaching and runoff potential of land applied nutrients. The PADEP has certified the proposed System at Kreider dairy for 125 nitrogen and 16 phosphorus credits (each credit represents an annual pound of reduction) for each of the approximately 1200-1300 dairy cows (subject to final permitting, construction and testing after operations have been stabilized).

During January 2009 the Board of the Pennsylvania Infrastructure Investment Authority ('Pennvest') approved a loan of up to \$7.8 million to Bion PA 1, LLC, a wholly-owned subsidiary of the Company, for development and construction of the Phase 1 System ('Kreider System') of Bion's Kreider Farms projects ('Pennvest Loan'). The Pennvest Loan is structured in phases (pre- and post-completion of permitting/commencement of construction) and Pennvest's disbursements will take the form of reimbursement of qualified sums expended by Bion PA 1, LLC. In connection with the Pennvest Loan the Company has provided a 'technology guaranty' regarding nutrient reduction performance of the Kreider System which 'technology guaranty' will expire when the Kreider System's nutrient reduction performance has been demonstrated. The Company anticipates that the steps required to finalize the pre-construction phase of the Pennvest Loan will be completed during the next quarter and that the initial drawdown/re-imbursment from Pennvest pursuant to the Pennvest Loan will be received shortly thereafter. Bion is in the process of finalizing its design for the Phase 1 Kreider System and has commenced the permitting process. It is anticipated that construction activities will commence during the fall of 2009.

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The Kreider agreement also provides for a second phase which will expand the initial system to treat the waste from the Kreider dairy support herd, treat the waste from Kreider's approximately 4.2 million chickens and construct a renewable energy production facility that will generate renewable energy through the combustion of the poultry wastes and the cellulosic solids captured by Bion in the Phase 1 system ('Kreider Renewable Energy Facility'). Bion is currently working with the PADEP to finalize credit protocols related to the Kreider Renewable Energy Facility which will generate renewable energy from the dairy solids produced in the Kreider System and poultry waste from Kreider's poultry operations (and possibly other poultry operations in the region). The Company recently submitted its formal nutrient reduction protocol application related to the Kreider Renewable Energy Facility for approval by the PADEP and the review process to clarify certain issues is under way. The Company does not yet have financing in place for the Kreider Renewable Energy Facility.

Bion anticipates that the Kreider System and Kreider Renewable Energy Facility will generate revenue from sale of nutrient credits, renewable

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energy and, in time, credits for the reduction of greenhouse gas emissions. Bion estimates that treatment of Kreider's combined dairy and poultry waste will ultimately produce approximately 1.5 million (or more) tradable nutrient credits annually, with the potential of additional nutrient credits to be generated from the treatment of waste from other livestock operations located in the area.

Note that a 2008 independent study commissioned by the PA State Senate estimates that capital costs of \$1.4 billion plus \$60 million annual operating costs (an average of \$28 per lb per year) will be required to upgrade the municipal wastewater treatment plants in Pennsylvania to meet the initial 7.5 million pounds of nitrogen reduction required by the Chesapeake Bay Program. Bion anticipates that it will be able to profitably sell nutrient credits from its Kreider facilities (and subsequent projects) for an annual total cost in the range of \$6-\$10 per lb - roughly the equivalent of the projected municipal wastewater upgrade annual operating costs alone - thereby creating potential saving to Pennsylvania ratepayers of most of the \$1.4B capital cost required for on the initial required 7.5 million lbs of N reduction if Bion's technology were utilized to make the all required reductions (which is not likely) under the Pennsylvania portion of the Chesapeake Bay Program.

Bion estimates that the overall market opportunity for Bion in the Chesapeake Bay watershed is large and of long duration. While regulatory and enforcement policy is still evolving and, therefore, the impact of those future policies upon Bion's operations cannot be precisely predicted and/or fully quantified, Bion believes that the tremendous difference between its cost to remove nutrients from a waste stream and the cost required for conventional waste water treatment technologies makes it reasonable to believe that Bion's potential profitability from these projects should be significant. Based on the aggregate size of livestock operations in the Chesapeake Bay watershed, Bion believes that the potential market for reductions in nitrogen loadings to the Chesapeake Bay watershed from livestock can be reasonably anticipated to increase tenfold (or more) to

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total in excess of 75 million (or more) pounds annually (including airborne ammonia) with certified tradable nutrient credits potentially generated equaling 50% to 60% of that aggregate required nitrogen reduction. Bion hopes to capture some significant portion of the work related to this clean-up mandate (which portion cannot be reasonably estimated at this time).

Bion also believes that it is reasonable to assume that the Chesapeake Bay Program strategies developed by US EPA and various state regulatory agencies to address the issue of excess nitrogen loadings to the Chesapeake Bay watershed clean-up will be subsequently applied to deal with the much larger nutrient pollution problems of the Mississippi River Basin that are a primary cause of the 'Dead Zone' in the Gulf of Mexico and similar problems elsewhere. We believe that Bion will potentially have large business opportunities for utilization of its technology as efforts to clean up such polluted areas develop but such opportunities not quantifiable at this time.

Integrated Projects

Bion's remains focused on implementation of its integrated technology platform as the basis for development of its large-scale Integrated Projects. Bion will pursue this opportunity through our Projects Group subsidiary (and project specific entities) which will act as the developer and manager of, and a direct participant in and/or owner of components of, the Projects. As such, Bion will:

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- * Locate, secure and develop appropriate sites;
- * Negotiate agreements with both input providers and, in certain instances, end-product users;
- * Secure required permits based upon clear standards that establish acceptable environmental operating parameters for each component of the Integrated Projects;
- * Manage construction and operation of the Projects; and
- * Provide its waste treatment services to CAFO operators for a fee while producing renewable energy for on-site use (including sale to the integrated biofuel and/or end product facilities) and, possibly, fine solids products for sale.

In turn, the CAFO operator will use the wet distiller grains from the ethanol plant as a feed component for the herd at a long-term competitive price. The CAFO facilities, which will be subject to permits imposing standards limiting their emissions and releases, can be owned either by the CAFO operator or by an independent third party finance source and subsequently leased to the CAFO operator. The CAFO operator will be responsible to provide its herd and operate the CAFO.

In some instances, Bion will own direct interests in the CAFO herd, ethanol plant, end-product user and/or the related facilities in addition to its ownership interest in the Bion System.

During fiscal 2008 Bion began pre-development work on an Integrated Project comprised of a large-scale beef cattle finishing operation and an

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ethanol production facility to be located in upstate New York. Bion was initially focused on St. Lawrence County but more recently has explored opportunities in other nearby upstate regions including Oswego County which has an existing ethanol production facility. No decision has yet been made as to where (if anywhere) the initial New York State Project will be located. Bion believes its proposed closed loop Integrated Projects will have substantial competitive advantages due to the overall scale and gains in resource efficiency, branding opportunities, and proximity to a market consisting of 50 million people within a 350 mile radius as well as export potential through the St. Lawrence Seaway. Bion's current preliminary plans call for Phase 1 of this Project to include approximately 72,000 beef cattle with a dedicated slaughter and cooking (further processing) facility integrated with an ethanol plant (existing or newly constructed). Bion anticipates that renewable energy produced from the cellulosic solids that Bion's technology recovers from the livestock waste stream will replace most (if not all) of the fossil fuel needs of the ethanol production and other integrated facilities. Bion estimates that the basic capital expense for the NYS project will be not less than \$200 million and that the Project, if developed, will result in the creation of 350 to 400 permanent long term jobs. Note that this Project has not yet emerged from the pre-development phase, no land or permits for the Project have been acquired and Bion has no commitments from anyone related to financing or participation in this Project and that no such Project has yet been developed by Bion (or others). This project is currently in the pre-development phase. However, Bion anticipates that it may option land and commence the actual development phase during the current fiscal year.

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In addition to the NYS beef cattle Project described above, Bion has been working with various local and state agencies in Nebraska to develop a large scale integrated dairy /cheese Integrated Project that would require capital expense estimated to be in excess of \$750 million and would potentially generate 700 to 850 full time permanent jobs. This Project would integrate newly constructed, very large-scale dairy complexes with a new dedicated milk processing/cheese production facility and, most likely, one or more existing ethanol production facilities. Preliminary plans under discussion involve up to 80,000 milking cows (requiring approximately 140,000 total head including the dairy support herd and steers) to be located on several satellite farms with waste treated by Bion's technology to assure environmental compliance and to produce renewable energy for use in the integrated facilities to replace fossil fuel requirements. Bion is in ongoing discussions regarding this project with Nebraska state development officials, as well as a large cheese producer/distributor and major dairy industry participants. Note that this Project has not yet emerged from the pre-development phase, no land or permits for the Project have been acquired and Bion has no commitments from anyone related to financing or participation in this Project and that no such Project has yet been developed by Bion (or others). This project is in its early stages.

In addition, Bion has had preliminary discussions with several nationally- and internationally-known food producers, processors, and distributors, regarding use of its technology to develop Projects which integrate new livestock herds with both existing and new processing facilities in order to improve their economic efficiencies, reduce environmental impacts and carbon footprint, produce branding opportunities and address food-safety concerns.

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At present it is not possible to determine whether any of the Projects referred to above will move to the development phase, will actually be developed and constructed, or precisely what, if any, the economic returns and/or profitability for such Integrated Projects (and/or for Bion in connection therewith) will be due to the pre-development stage of each Project and numerous unknown variables related to future financing and partnering terms, as well as the availability of existing and proposed economic development incentive plans for which such Projects may qualify. However, Bion strongly believes that the economic efficiencies of these closed loop Integrated Projects will potentially increase the annual returns by 5 percentage points (or more) over the existing dairy/livestock/food industry metrics. In a basic commodity business such as food products and ethanol production, such an increase, if realized, represents a very significant economic advantage which Bion believes will result in advantageous financing terms and in clearly superior profitability for its Integrated Projects.

RECENT FINANCINGS

2006 SERIES A CONVERTIBLE PROMISSORY NOTES

On September 13, 2006, Bion closed an offering of its Series A Convertible Promissory Notes in the principal amount of \$700,000. The notes earned interest at the rate of 6%, payable on May 31, 2008, the maturity of the notes. All principal and accrued interest under the notes were required to be converted into common shares of Bion at the rate of \$6 per share if the closing market price of Bion's common stock has been at or above \$7.20 per share for 10 consecutive trading days and the earlier to occur of (i) an effective registration statement allowing public resale of the shares received upon conversion of the notes or (ii) one year after September 13, 2006. No conversion could occur unless Bion became a "reporting company"

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with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended ("Exchange Act"). The notes could also be converted, in whole or in part, at the election of the noteholders. On May 31, 2008, the principal and accrued interest of each of the 2006 Notes, totaling \$779,074, were exchanged, via subscription agreements, for 389,543 shares of restricted common stock of the Company at \$2.00 per share which approximated the market price of the stock at the time of the conversion.

2007 SERIES A CONVERTIBLE PROMISSORY NOTES

In March and April 2007, Bion sold \$800,000 of its 2007 Series A Convertible Promissory Notes to existing investors. The notes earned interest at the rate of 6%, payable on July 1, 2008, the maturity date of the notes. Principal and accrued interest under the notes was convertible at \$4.00 per share. Additionally, Mark A. Smith, our President, accepted \$151,645 of the Company's 2007 Series A Convertible Notes in exchange for his deferred compensation for the period from January 1, 2007 through March 31, 2007 and the Company's promissory note issued on January 1, 2007 for Mr. Smith's deferred compensation from April 1, 2006 through December 31, 2006. Salvatore Zizza, Chairman and a Director of Bion's operating subsidiary, Bion Dairy Corporation, and Bright Capital, Ltd. ("Brightcap"), which provide the consulting services of Dominic Bassani to the Bion companies, accepted \$379,389 and \$455,486, respectively, of the Company's Series A Notes in exchange for their respective deferred compensation for the period from

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January 1, 2007 through March 31, 2007 and the Company's promissory notes issued on January 1, 2007 for their respective deferred compensation owed by Bion on December 31, 2006.

On May 31, 2008 all of the non-affiliate 2007 Note holders, at their election per the terms of their original 2007 Notes, converted their 2007 Notes totaling \$856,737 (including accrued interest) into 428,369 restricted common shares of the Company. Also on May 31, 2008, 2007 Notes owned by affiliates totaling \$650,427 (including accrued interest) were converted into 325,214 common shares of the Company. These Notes were converted at a price of \$2.00 per share, the price at which the Company sold common stock during the same period.

On June 18, 2008, Salvatore Zizza, former Chairman of Projects Group, the remaining affiliated holder of the outstanding 2007 Notes increased the principal of his Note, maturing on July 1, 2013, by \$375,000 to \$784,122, which represented the potential deferred compensation (subject to forfeiture) through June 30, 2008 and he agreed to add his future compensation from the Company to his Note as it accrued. As of December 31, 2008, the principal and interest on the Note totaled \$959,184. Pursuant to an agreement dated December 19, 2008, Mr. Zizza agreed to no longer provide services to the Company effective December 31, 2008. In conjunction with this agreement, Mr. Zizza's Note was returned to the Company on December 31, 2008 and it was cancelled, which resulted in the Company's recognition of income due to forfeiture of deferred compensation of \$959,184. The deferred compensation underlying the convertible note had not yet vested at the date the Note was cancelled. In addition, the Note was subject to certain risks of forfeiture and/or cancellation.

SERIES B CONVERTIBLE PREFERRED STOCK (2009)

On July 29, 2009 the Company concluded a private offering in which we sold 28,170 shares of its Series B Convertible Preferred Shares ('Preferred Shares') and received net proceeds of approximately \$2,450,000 after

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commissions and offering expenses. The Company sold 21,320 Preferred Shares through June 30, 2009 for net proceeds of approximately \$1,854,840 with the balance sold thereafter. The Preferred Shares pay a dividend of 2.5% per quarter (pro-rated), are convertible into our common shares at \$2.00 per share and will be redeemed at 3 years if not previously converted. The Company has the right to call for the redemption of the Preferred Shares one year after the issuance of the initial Preferred Shares and, if Bion initiates such a call for redemption, the holders of the Preferred Shares have the right to convert the Preferred Shares to common stock prior to such redemption.

SALES OF COMMON STOCK DURING 2009 FISCAL YEAR

During the fiscal year ended June 30, 2009 the Company sold 446,667 shares, in aggregate, of its restricted common stock for \$380,000 of cash (net proceeds). Additionally the Company issued 290,343 shares of its restricted common stock, in aggregate, for \$177,370 of services. The Company also issued 318,780 shares, in aggregate, of its restricted common stock in conversion of \$239,083 of its debt to equity.

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COMPETITION

There are a significant number of competitors in the waste treatment industry who are working on animal related pollution issues. This competition is increasing with the growing governmental and public concern focused on pollution due to CAFO wastes. Waste treatment lagoons which depend on anaerobic microorganisms ("anaerobic lagoons") are the most common traditional treatment process for animal waste on large farms within the swine and dairy industries. These lagoons are coming under increasing regulatory pressure due to associated odor, nutrient management and water quality issues and are facing possible phase-out in some states. Although we believe that Bion has the most economically and technologically viable solution for the current problems, other alternative (though partial) solutions do exist including, for example, synthetic lagoon covers (which are placed on the top of the water in the lagoon to trap the gases), methane digesters (a tank which uses anaerobic microorganisms to break down the waste to produce methane), multistage anaerobic lagoons and solids separators (processes which separate large solids from fine solids). Additionally, many efforts are underway to develop and test new technologies.

Our ability to compete is dependent upon our ability to obtain required approvals and permits from regulatory authorities and upon our ability to introduce and market our Systems in the appropriate markets.

There is also extensive competition in the livestock, ethanol production, organic soil amendment/fertilizer/organic fertilizer and feed ingredient markets. There are many companies that are already selling products to satisfy demand in the sectors of these markets we are trying to enter. Many of these companies have established marketing and sales organizations and retail customer commitments, are supporting their products with advertising, sometimes on a national basis, and have developed brand name recognition and customer loyalty in many cases.

Additionally, a number of companies, including without limitation, Panda Ethanol, E3 BioFuels and Prime BioSolutions, are (or have) pursuing the development of various forms of "closed loop" projects which combine CAFOs and ethanol plants and utilize the CAFO waste stream to produce energy for the ethanol plant and the CAFO herd to consume the distillers grain by-product of the ethanol production. While a very limited number of entities

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(including those named above) have announced projects and/or solutions that sound similar to the Company's Integrated Projects with limited success to date, there appear to be significant differences including without limitation, the use of technology that is based on either manure 'gasification' or capturing methane from the waste stream using anaerobic digesters (ADs). Although ADs do produce methane that can be used to replace some or all of the natural gas requirement of an ethanol plant, the AD process produces only about one third of the energy per animal that Bion believes will be produced by its technology platform from the combustible solids extracted from the CAFO waste stream based on Bion's internal analysis. Further, none of the technologies of which the Company is aware appear to represent solutions to the nutrient and atmospheric environmental problems of CAFOs addressed by Bion's technology, or have any independent data supporting claimed environmental benefits, and, therefore, the Company believes that their potential projects will be limited to locations in which CAFOs have already been permitted and limited to the existing CAFO size.

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DEPENDENCE ON ONE OR A FEW MAJOR CUSTOMERS

In our Integrated Projects business, we will most likely be dependent upon one or a few major customers/partners/joint venturers since a limited number of Integrated Projects will be developed. We anticipate initially developing, owning interests in, and operating only one or a few fully Integrated Projects commencing during fiscal 2010, and, thereafter, developing a limited number of Projects at a time. Thus, at least for the near future, our revenues will be dependent on a few major Projects or customers.

PATENTS

We are the sole owner of ten United States patents (numbered below), one Australian patent, one Canadian patent, one patent from Mexico and one New Zealand patent:

- 1* U.S. Patent No. 4,721,569, Phosphorus Treatment Process, expires April 2007.
- 2* U.S. Patent No. 5,078,882, Bioconversion Reactor and System, expires March 2010.
- 3* U.S. Patent No. 5,472,472, Animal Waste Bioconversion System, expires September 2013.
- 4* U.S. Patent No. 5,538,529, Bioconverted Nutrient Rich Humus, expires August 2014.
- 5* U.S. Patent No. 5,626,644, Storm Water Remediation Bioconversion System, expires October 2015.
- 6* U.S. Patent No. 5,755,852, Bioconverted Nutrient Rich Humus, expires July 2016.
- 7* U.S. Patent No. 6,689,274, Low Oxygen Waste Bioconversion System, expires November 2020.
- 8* U.S. Patent No. 6,908,495, extension of Low Oxygen Waste Bioconversion System, expires June 2023.
- 9* U.S. Patent No. 7,431,839 - 10/7/08: Low Oxygen Biologically Mediated Nutrient Removal; expires December 2021
- 10* U.S. Patent No. 7,575,685 - 8/18/09: Low Oxygen Biologically Mediated Nutrient Removal." expires November 2023
- * Australian Patent No. 2002227224, Low Oxygen Organic Waste Bioconversion System; expires November 8, 2021
- * Canadian Patent No. 1,336,623, Aqueous Stream Treatment Process, expires August 2012.
- * New Zealand Patent No. 526,342, Low Oxygen Organic Waste

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Bioconversion System, expires November 8, 2021.

- * Mexican Patent No. 240,124, Low Oxygen Organic Waste Bioconversion System, expires November 8, 2021.

On November 3, 2006, we filed a patent application titled "Environmentally Compatible Integrated Food and Energy Production System." The application number is 11/592,511.

On February 27, 2009, we filed a provisional patent application titled "Method for Treating Nitrogen in Waste Streams." The application number is 61/208,843.

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On August 17, 2009, we filed a patent application titled "Low Oxygen Biologically Mediated Nutrient Removal." The application number is 12/542,122.

In addition to such factors as innovation, technological expertise and experienced personnel, we believe that a strong patent position is increasingly important to compete effectively in the businesses on which we are focused. It is likely that we will file applications for additional patents in the future. There is, however, no assurance that any such patents will be granted.

It may become necessary or desirable in the future for us to obtain patent and technology licenses from other companies relating to technologies that may be employed in future products or processes. To date, we have not received notices of claimed infringement of patents based on our existing processes or products, but due to the nature of the industry, we may receive such claims in the future.

We generally require all of our employees and consultants, including our management, to sign a non-disclosure and invention assignment agreements upon employment with us.

RESEARCH AND DEVELOPMENT

During the year ended June 30, 2009 we expended approximately \$357,000 (including non-cash expenditures) on undertaking research and development related to our technology platform applications in support of large-scale, economically and environmentally sustainable Integrated Projects. Bion's main efforts were directed at further refinement of our technology and its applications. In addition, substantial research and development activity was focused on design and refinement of all aspects of the technology and integration engineering related to the energy balances, renewable energy production and on-site utilization, related to Integrated Project issues and our business model. Research activities have focused on factors related to renewable energy production from CAFO waste including coarse solid recovery, drying and use for renewable energy production, as well as fine solids recovery, drying and utilization as fertilizer and/or animal feed. We discontinued operations at the DeVries dairy facility during the 2009 fiscal year. The sums expended on research and development were focused on substantially the same areas as in the prior year but were reduced compared to the prior year due to the fact that during the 2009 fiscal year a greater portions of the Company's activities were focused on commercialization and business development based on our technology.

During the year ended June 30, 2008 we expended approximately \$792,000 (including non-cash expenditures) on undertaking research and development related to our technology platform applications in support of large-scale,

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economically and environmentally sustainable Integrated Projects. Bion's main efforts were directed at further development of our technology and its applications. In addition, substantial research and development activity was focused on design and refinement of all aspects of the technology and integration engineering related to the energy balances, renewable energy production and on-site utilization, related to Integrated Project issues and our business model. Research activities have focused on factors related to renewable energy production from CAFO waste including coarse solid recovery,

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drying and use for renewable energy production, as well as fine solids recovery, drying and utilization as fertilizer and/or animal feed. On-going research related to reduction of nutrient releases and gaseous emissions from CAFO waste streams also took place at the DeVries dairy facility and elsewhere. The sums expended on research and development were focused on substantially the same areas as in the prior years but were reduced compared to the prior year due to the fact that during the 2008 fiscal year a greater portions of the Company's activities were focused on commercialization and business development based on our technology.

Environmental Protection/Regulation

In regard to development of Projects, we will be subject to extensive environmental regulations related to CAFO's and ethanol production. To the extent that we are a provider of systems and services to others that result in the reduction of pollution, we are not under direct enforcement or regulatory pressure. However, we are involved in CAFO waste treatment and are impacted by environmental regulations in at least four different ways:

- * Our marketing and sales success depends, to a substantial degree, on the pollution clean-up requirements of various governmental agencies, from the Environmental Protection Agency (EPA) at the federal level to state and local agencies;
- * Our System design and performance criteria must be responsive to the changes in federal, state and local environmental agencies' effluent and emission standards and other requirements;
- * Our System installations and operations require governmental permit approvals in many jurisdictions; and
- * To the extent we own or operate Integrated Projects including CAFO facilities and ethanol plants, those facilities will be subject to environmental regulations.

EMPLOYEES

As of September 15, 2009, we had 9 employees and primary consultants, all of whom are full-time except for Jeff Kappel who provides consulting services to the Company on a part-time basis. Our future success depends in significant part on the continued service of our key technical and senior management personnel. The competition for highly qualified personnel is intense, and there can be no assurance that we will be able to retain our key managerial and technical employees or that we will be able to attract and retain additional highly qualified technical and managerial personnel in the future. None of our employees is represented by a labor union, and we consider our relations with our employees to be good. None of our employees is covered by "key person" life insurance.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

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RESULTS OF OPERATIONS.

Included in ITEM 8 are the audited Consolidated Financial Statements for the fiscal years ended June 30, 2009 and 2008 ("Financial Statements").

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Statements made in this Form 10-K that are not historical or current facts, which represent the Company's expectations or beliefs including, but not limited to, statements concerning the Company's operations, performance, financial condition, business strategies, and other information, involve substantial risks and uncertainties. The Company's actual results of operations, most of which are beyond the Company's control, could differ materially. These statements often can be identified by the use of terms such as "may," "will," "expect," "believe," "anticipate," "estimate," or "continue" or the negative thereof. We wish to caution readers not to place undue reliance on any such forward looking statements, which speak only as of the date made. Any forward looking statements represent management's best judgment as to what may occur in the future. However, forward looking statements are subject to risks, uncertainties and important factors beyond our control that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected.

These factors include adverse economic conditions, entry of new and stronger competitors, inadequate capital, unexpected costs, failure to gain product approvals in the United States (or particular states) or foreign countries and failure to capitalize upon access to new markets. Additional risks and uncertainties that may affect forward looking statements about Bion's business and prospects include the possibility that a competitor will develop a more comprehensive or less expensive environmental solution, delays in market awareness of Bion and our Systems, or possible delays in Bion's development of Projects and failure of marketing strategies, each of which could have an immediate and material adverse effect by placing us behind our competitors. Bion disclaims any obligation subsequently to revise any forward looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements filed with this Report.

BUSINESS OVERVIEW

For several years, the Company focused on completion of the development of its second-generation technology which provides a comprehensive environmental solution to a significant source of pollution in U.S. agriculture, Confined Animal Feeding Operations ("CAFO's"), which development is now substantially complete. Currently, Bion is focused on using applications of its patented waste management technology to pursue two main business opportunities: 1) environmental retrofit and remediation of the waste streams of existing CAFOs in selected markets; and 2) to develop Integrated Projects which will include large CAFOs, such as large dairies, beef cattle feed lots and hog farms, with Bion waste treatment System modules processing the aggregate CAFO waste stream from the equivalent of 40,000 or more beef and/or dairy cows (or the waste stream equivalent of other species) while producing solids to be utilized for renewable energy production (and potentially to be marketed as feed and/or fertilizer), integrated with an ethanol plant capable of producing 40 (or more) million gallons of ethanol per year and/or with CAFO end product processors.

The Company has commenced actively pursuing the opportunity presented by environmental retrofit and remediation of the waste streams of existing CAFOs. The first commercial activity in this area is an agreement with Kreider Farms ("KF") in Pennsylvania to design, construct and operate Bion Systems to treat KF's dairy and poultry waste streams to reduce nutrient releases to the environment while generating marketable nutrient credits and renewable energy. On January 26, 2009 the Board of the Pennsylvania Infrastructure Investment Authority approved a \$7.8 million loan to Bion PA 1, LLC, a wholly-owned subsidiary of the Company, for the initial stage of Bion's Kreider Farms project. The Company anticipates that the steps required to finalize the pre-construction phase of the Pennvest Loan will be completed during the next quarter and that the initial drawdown/re-imbursement from Pennvest pursuant to the Pennvest Loan will be received shortly thereafter. The Company has commenced permitting for this project and anticipates construction of this project during the current fiscal year.

Additionally, we believe that Bion's technology platform allows 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, generates 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 CAFOs and/or slaughter and/or processing facilities in the context of beef CAFOs) and/or other users as a natural gas replacement. Note that an integrated ethanol plant's main by-product, called distillers grain, can be added to the feed of the animals in wet form thereby lowering the capital expenditures, operating, marketing and shipping costs and energy usage of the ethanol production process. In such cases, the ethanol plant would act as a feed mill for the integrated CAFO, thus reducing the CAFO's feeding costs and generating revenue to the ethanol plant, and also provides a market for the renewable energy that Bion's System produces from the CAFO waste stream. Thus, such Bion Integrated Projects can be denominated "closed loop". Bion, as developer of and participant in Integrated Projects, anticipates that it will share in the cost savings and revenue generated from these activities.

Bion is currently working with local, state and federal officials and with potential industry participants to evaluate sites in multiple states and anticipates selecting a site for its initial Project during the 2009 calendar year. At present it is possible, but not certain, that the initial Integrated Project will be located in upstate New York (although locations in other states are also under review). In addition, Bion intends to choose sites for additional Projects during the remainder of calendar years 2009-2011 to create a pipeline of Projects. Management has a 5-year development target (through calendar year 2015) of approximately 12-24 Integrated Projects. At the end of the 5-year period, Bion projects that 8 or more of these Integrated Projects will be in full operation in 3-8 states, and the balance would be in various stages ranging from partial operation to early permitting stage. No Integrated Project has been developed to date.

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The financial statements for the years ended June 30, 2009 and 2008 have been prepared assuming the Company will continue as a going concern. The Company has incurred net losses of approximately \$1,312,000 and \$1,779,000 during the years ended June 30, 2009 and 2008, respectively. At June 30, 2009, the Company had a working capital surplus and stockholders' deficit of approximately \$515,000 and \$1,124,638, respectively. The report of the independent registered public accounting firm on the Company's consolidated financial statements as of and for the year ended June 30, 2009 includes a "going concern" explanatory paragraph which means that the accounting firm has expressed substantial doubt about the Company's ability to continue as a going concern. Management's plans with respect to these matters are described in this section and in our consolidated financial statements, and this material does not include any adjustments that might result from the outcome of this uncertainty. There is no guarantee that we will be able to raise the funds or raise further capital for the operations planned in the near future.

CRITICAL ACCOUNTING POLICIES

Management has identified the following policies below as critical to our business and results of operations. Our reported results are impacted by the application of the following accounting policies, certain of which require management to make subjective or complex judgments. These judgments involve making estimates about the effect of matters that are inherently uncertain and may significantly impact quarterly or annual results of operations. For all of these policies, management cautions that future events rarely develop exactly as expected, and the best estimates routinely require adjustment. Specific risks associated with these critical accounting policies are described in the paragraphs below.

Revenue Recognition

While the Company has not recognized any operating revenues for the past two fiscal years, the Company anticipates that future revenues will be generated from product sales, credit sales, technology license fees, annual waste treatment fees and/or direct ownership interests in Integrated Projects. The Company expects to recognize revenue from product sales 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 Systems. 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 Projects will be recognized when the entity in which the Project has been developed recognizes such revenue.

Compensation Cost for Options with Service Conditions and Graded Vesting Schedules

The Company has issued non-employee options that include service conditions and have graded vesting schedules. Generally for these

arrangements, the measurement date of the services occurs when the options vest. In accordance with Emerging Issues Task Force Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees

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for Acquiring, or in Conjunction with Selling, Goods or Services", recognition of compensation cost for reporting periods prior to the measurement date is based on the then current fair value of the options. Fair value of the options is determined using a Black-Scholes option-pricing model. Any subsequent changes in fair value will be recorded on the measurement date. Compensation cost in connection with options that are not fully vested is being recognized on a straight-line basis over the requisite service period for the entire award.

Stock-based compensation

The Company follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised), "Share-Based Payment" ("SFAS 123(R)"), which generally requires that share-based compensation transactions be accounted and recognized in the statement of income based on their fair values.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115 ("SFAS 159"). This statement permits entities to choose to measure eligible items at fair value at specified election dates. SFAS 159 was effective for the Company on July 1, 2008. The Company did not apply the fair value option to any of its outstanding instruments, and therefore, SFAS 159 did not have an impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R continues to require the purchase method of accounting to be applied to all business combinations, but it significantly changes the accounting for certain aspects of business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing non-controlling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after July 1, 2009 for the Company. The Company does not expect that the adoption of SFAS 141R will have an impact on its consolidated financial statements unless the Company enters into business acquisitions in the future.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary (minority interest) is an ownership interest in the consolidated entity that should be reported

as equity in the consolidated financial statements and separate from the parent company's equity. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated statement of operations, of the amounts of consolidated net income attributable to the parent and to

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the non-controlling interest. This statement is effective for the Company on July 1, 2009. At that date, the Company will report the non-controlling interest in a subsidiary (which amounts to \$111,790 at June 30, 2009) as a component of stockholders' equity. This will have the immediate effect of increasing stockholders' equity by \$111,790. The Company is currently evaluating the effect the adoption of other provisions of this statement may have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring that the objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. The statement is effective for the Company on January 1, 2009. The Company does not expect that the adoption of SFAS 161 will have an impact on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board auditing amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company does not expect SFAS 162 to have an effect on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 163, Accounting for Financial Guarantee Insurance Contracts - an interpretation of FASB Statement No. 60. ("SFAS 163"). SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. SFAS 163 also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. SFAS 163 requires expanded disclosures about financial guarantee insurance contracts. SFAS 163 will be effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of FAS 163 will have any impact on its consolidated financial statements.

In June 2008, the FASB ratified Emerging Issues Task Force ("EITF") Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock ("EITF 07-5"). EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Paragraph 11(a) of SFAS No. 133 - specifies that a contract that would otherwise meet the definition

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of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. EITF 07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the SFAS No. 133 paragraph 11(a) scope exception. This statement is effective for the Company on July 1, 2009. The Company is currently evaluating the effect the adoption of this statement may have on its consolidated financial statements.

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In April 2009, the FASB issued FASB Staff Position ("FSP") SFAS 107-1 and Accounting Principles Board ("APB") 28-1, Interim Disclosures about Fair Value of Financial Instruments ("FSP 107-1"), which will require that the fair value disclosures required for all financial instruments within the scope of SFAS 107, Disclosures about Fair Value of Financial Instruments, be included in interim financial statements. This FSP also requires entities to disclose the method and significant assumptions used to estimate the fair value of financial instruments on an interim and annual basis and to highlight any changes from prior periods. FSP 107-1 will be effective for interim periods ending after June 15, 2009. The adoption of FSP 107-1 is not expected to have a material impact on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS No. 165), which updates previous guidance under GAAP by replacing "type 1" and "type 2" with "recognized" and "unrecognized," and requires disclosure in financial statements of the date through which subsequent events have been evaluated. SFAS No. 165 is effective for interim and annual periods after June 15, 2009 and was adopted by the Company beginning in the fourth quarter of its fiscal year 2009. The adoption of SFAS No. 165 did not have a material impact on the Company's consolidated results of operation and financial condition.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of SFAS 162 (SFAS No. 168), establishing codification, which integrates and categorizes all guidance by standard setters within levels A through D of the previous GAAP hierarchy. SFAS No. 168 will replace all existing GAAP for non-governmental entities and will establish a new hierarchy of GAAP, both authoritative and non-authoritative. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009 and will be adopted by the Company beginning in the first quarter of its fiscal year 2010. The Company does not expect the adoption to have a material impact on its consolidated results of operations and financial condition.

YEAR ENDED JUNE 30, 2009 COMPARED TO THE YEAR ENDED JUNE 30, 2008

General and Administrative

Total general and administrative expenses were \$1,960,000 and \$2,089,000 for the years ended June 30, 2009 and 2008, respectively.

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General and administrative expenses, excluding stock-based compensation charges of \$25,000 and \$333,000 for the years ended June 30, 2009 and 2008, respectively, were \$1,935,000 versus \$1,756,000 for the years ended June 30, 2009 and 2008, respectively. The primary reason for the increase in general and administrative expenses excluding stock-based compensation during the year ended June 30, 2009 is due to the shift in the Company's focus from research and development to pre-commercial and commercial business activities related to its next generation technology applications during the fourth quarter of fiscal year 2008, therefore costs of various employees and consultants (and their activities) that were previously incurred as research and development expense are now allocated to general and administrative expense. The increases in general and administrative expenses were partially offset by the capitalization of the direct general and administrative costs related to the KF Project during the fourth quarter of fiscal year 2009 of approximately \$433,000 which included \$170,000 of salary and payroll related

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costs. Salary and payroll related taxes recorded as general and administrative expenses were \$703,000 and \$695,000 for the years ended June 30, 2009 and 2008, respectively. Consulting expense was \$703,000 and \$717,000 for the years ended June 30, 2009 and 2008, respectively. Legal costs increased \$146,000 for the year ended June 30, 2009 due to the fact during the year ended June 30, 2008 insurance reimbursements for the Centerpoint litigation expenses of \$133,000 were received. The Company also incurred lower rent expense, \$44,000 and \$89,000 for the years ended June 30, 2009 and 2008, respectively, due to additional sub-tenant month to month rentals during the year ended June 30, 2009.

General and administrative stock-based compensation for the years ended June 30, 2009 and 2008 consist of the following:

| | Year ended June 30, 2009 | Year ended June 30, 2008 |
|---|-----------------------------|-----------------------------|
| | | |
| General and administrative: | | |
| Fair value remeasurement of convertible notes - affiliates | \$ - | \$(237,383) |
| Fair value and amortization of expenses prepaid with stock options granted to non-employees | - | 69,828 |
| Fair value remeasurement of options with service conditions | (184,400) | (19,394) |
| Fair value of stock options expensed under SFAS 123(R) | 209,262 | 519,751 |
| | | |
| Total | \$ 24,862 | \$ 332,802 |
| | | |

Stock-based compensation charges decreased from \$333,000 to \$25,000 for the years ended June 30, 2008 and 2009, respectively. The change in stock-based compensation fair value adjusted expense relating to the President's convertible deferred compensation of \$(237,000) is due to the fact his note was converted in December 2007, therefore no remeasurement was required for the year ended June 30, 2009. For the year ended June 30, 2009 the Company recognized expense relating to the fair value of stock options for general and administrative employees of \$209,000, compared to \$520,000 for the year ended June 30, 2008. Compensation expense relating to stock options was higher during the year ended June 30, 2008 due to modifications in vested stock options during the period which resulted in additional expense. The

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Company also recognized as general and administrative expenses \$(184,000) for the remeasurement of options with service conditions due to the reallocation of research and development related costs and the decrease in the fair value of the options from approximately \$2.06 per share to approximately \$0.98 per share during the year ended June 30, 2009.

Research and development

Total research and development expenses were \$357,000 and \$792,000 for the years ended June 30, 2009 and 2008, respectively.

Research and development expenses, excluding stock-based compensation charges/(credits) of \$118,000 and \$(149,000) for the years ended June 30, 2009 and 2008 were \$239,000 and \$941,000, respectively. The primary reason for the decrease in research and development expenses during the year ended June 30, 2009 is due to the shift in the Company's focus from research and

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development to pre-commercial and commercial activities related to its next generation technology applications, therefore costs of various employees and consultants (and their related activities) that were previously incurred as research and development expense are now allocated to general and administrative expense. Salary and payroll related taxes were \$130,000 and \$391,000 for the year ended June 30, 2009 and 2008, respectively, and the decrease is due to the expensing of previous research and development employees to general and administrative. Consulting expenses also decreased significantly, from \$368,000 to \$36,000 for the years ended June 30, 2008 and 2009, respectively, due to the shift from research and development to general and administrative.

Research and development stock-based compensation for the years ended June 30, 2009 and 2008 consist of the following:

| | Year ended June 30, 2009 | Year ended June 30, 2008 |
|---|-----------------------------|-----------------------------|
| | | |
| Research and development: | | |
| Fair value remeasurement of convertible notes - affiliates | \$ - | \$(323,387) |
| Fair value and amortization of expenses prepaid with stock options granted to non-employees | - | 34,377 |
| Fair value remeasurement of options with service conditions | 65,461 | (19,394) |
| Fair value of stock options expensed under SFAS 123(R) | 52,830 | 159,401 |
| | | |
| Total | \$ 118,291 | \$(149,003) |
| | | |

Stock-based compensation charges/(credits) increased from \$(149,000) for the year ended June 30, 2008 to \$118,000 for the same period in fiscal year 2009. Stock-based compensation fair value adjusted credits of \$(323,000) for the year ended June 30, 2008, were recorded to re-measure the fair value of Brightcap's convertible deferred compensation. There was no similar charge for the year ended June 30, 2009 as the note was converted at May 31, 2008. The Company recorded stock-based compensation expense of \$53,000 and \$159,000

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under the provisions of SFAS 123(R) for the year ended June 30, 2009 and 2008, respectively for options vested to research and development employees. The decrease is due to expensing options issued to employees who in the prior year were deemed to be research and development and in the fiscal year 2009 were primarily allocated to general and administrative. The Company also recognized as research and development credits of \$(19,000) for the remeasurement of options with service conditions for the year ended June 30, 2008 while \$53,000 was expensed for the year ended June 30, 2009 due to the allocation of such expenses to general and administrative expenses.

Loss from Operations

As a result of the factors described above, the loss from operations was \$2,317,000 and \$2,881,000 for the years ended June 30, 2009 and 2008, respectively.

Other expense and (income)

Other expense and (income) was \$(1,005,000) and \$(1,102,000) for the

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years ended June 30, 2009 and 2008, respectively. Interest expense decreased \$148,000 from \$186,000 for the year ended June 30, 2008 to \$38,000 for the year ended June 30, 2009. Interest expense decreased for the year ended June 30, 2009 due to lower interest bearing debt balances as the 2006 and 2007 Series A Notes were settled in fiscal year 2008. For the year ended June 30, 2009, the Company recognized other income of \$1,036,000 due to the forfeiture of deferred compensation relating to the cancellation of Mr. Zizza's Notes of \$959,000, a \$75,000 settlement with the Company's directors' and officers' liability insurance providers and \$2,000 from the extinguishment of liabilities. For the year ended June 30, 2008, the Company recognized other income of \$1,385,000 due to the receipts of \$828,000 from litigation settlements, \$430,000 from release of previously escrowed funds owed to Centerpoint and \$127,000 from the extinguishment of liabilities. The receipts of the litigation settlement proceeds and the escrowed funds resulted in a positive net equity position for the Company's majority held subsidiary, Centerpoint, which resulted in the recording of the \$118,000 minority interest expense of Centerpoint for the year ended June 30, 2008 while for the year ended June 30, 2009 the amount was \$(6,000).

Net loss

As a result of the factors described above, the net loss was \$1,312,000 and \$1,779,000 for the years ended June 30, 2009 and 2008, respectively, representing a \$0.09 decrease in the net loss per basic and diluted common share for the years ended June 30, 2009 and 2008, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial statements for 2009 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Report of our Independent Registered Public Accounting Firm on the Company's financial statements as of and for the year ended June 30, 2009 includes a "going concern" explanatory paragraph which means that the auditors stated that conditions exist that raise substantial doubt about the Company's ability to continue as a going concern.

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As of June 30, 2009, the Company had cash and cash equivalents of approximately \$1,696,000. During the year ended June 30, 2009, net cash used in operating activities was \$955,000, primarily consisting of cash operating expenses. As previously noted, the Company is currently not generating revenue and accordingly has not generated cash flows from operations. The Company does not anticipate generating sufficient revenues to offset operating and capital costs for a minimum of one to five years. While there are no assurances that the Company will be successful in its efforts to develop and construct its Projects and market its Systems, it is certain that the Company will require significant funding from external sources. Given the unsettled state of the current credit and capital markets, there is no assurance the Company will be able to raise the funds it needs on reasonable terms.

Investing Activities

During the year ended June 30, 2009 the Company provided \$42,000 of cash due to the release of restricted cash related to the New York office operating lease and used \$433,000 for the design and permitting of the KF Project which has been capitalized as property and equipment.

Financing Activities

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During the year ended June 30, 2009, \$165,000 of cash was provided by financing activities from short-term promissory notes - affiliates, \$162,500 of cash was provided from short-term loans - affiliates, \$380,000 of cash was provided from the sale of the Company's restricted common stock and \$1,854,840 was provided from the sale of the Company's Series B preferred stock.

As of June 30, 2009 the Company has significant debt obligations consisting primarily of deferred compensation of \$325,000 and loans payable - affiliates of \$162,500. In addition, the Company has entered into an 88-month operating lease for office space in New York City, with an average monthly lease expense of \$15,820.

Subsequent to June 30, 2009, the Company received net proceeds of \$595,950 from the issuance of 6,850 shares of its Series B Preferred stock.

Plan of Operations and Outlook

As of June 30, 2009 the Company had cash and cash equivalents of approximately \$1,696,000. While the Company currently does not face a severe working capital shortage, it is not currently generating any revenues. The Company will need to obtain additional capital to fund its operations and technology development, to satisfy existing creditors, to develop Projects and to construct the KF facilities. In January 2009, the Board of Pennsylvania Infrastructure Investment Authority approved a \$7.8 million loan to the Company for the initial stage of the KF Project. The Company anticipates to finalize the documentation for this loan during the next quarter and intends to permit and construct this project during the 2010 fiscal year.

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The Company anticipates that it will seek to raise from \$5,000,000 to \$50,000,000 (debt and equity) during the next twelve months. There is no assurance, especially in the extremely unsettled capital markets that presently exist, 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.

There can be no assurance that funds required during the next twelve months or thereafter will be generated from operations or that those funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital resulting from the inability to generate cash flow from operations 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.

Currently, Bion is focused on using applications of its patented waste management technology to pursue two main business opportunities: 1) to develop Integrated Projects which will include large CAFOs, such as large dairies, beef cattle feed lots and hog farms, with Bion waste treatment System modules processing the aggregate CAFO waste stream from the equivalent of 40,000 or more beef and/or dairy cows (or the waste stream equivalent of other species) while producing solids to be utilized for renewable energy production (and potentially to be marketed as feed and/or fertilizer),

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integrated with an ethanol plant capable of producing 40 (or more) million gallons of ethanol per year and/or integrated with CAFO end product processors, and 2) environmental retrofit and remediation of the waste streams of existing CAFOs in selected markets.

Bion is currently working with local, state and federal officials and with potential industry participants to evaluate sites in multiple states and anticipates selecting a site for its initial Project during the 2009 calendar year. At present it is possible, but not certain, that the initial Integrated Project will be located in upstate New York (although locations in other states are also under review). In addition, Bion intends to choose sites for additional Projects during the remainder of calendar years 2009-2011 to create a pipeline of Projects. Management has a 5-year development target (through calendar year 2015) of approximately 12-24 Integrated Projects. At the end of the 5-year period, Bion projects that 8 or more of these Integrated Projects will be in full operation in 3-8 states, and the balance would be in various stages ranging from partial operation to early permitting stage. No Integrated Project has been developed to date.

The Company has also commenced actively pursuing the opportunity presented by environmental retrofit and remediation of the waste streams of existing CAFOs in selected markets. The first commercial activity in this area is the agreement with KF in Pennsylvania.

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CONTRACTUAL OBLIGATIONS

We have the following material contractual obligations (in addition to employment and consulting agreements with management and employees):

1) The Company executed a non-cancelable operating lease for office space in New York City effective August 1, 2006 and extending to November 30, 2013. The average monthly rent expense under the lease is \$15,820. The Company has provided the lessor with a letter of credit in the amount of \$85,973 in connection with the lease as of June 30, 2008. The Company's obligations under the lease are partially guaranteed by Salvatore Zizza, former Chairman of Bion Projects. The Company has entered into sub-leases with non-affiliated parties for approximately 32% of the obligations under the lease. Effective January 1, 2009, Mr. Zizza has entered into a Master Sublease with the Company whereby Mr. Zizza will become a sublessee and will, for a one year initial period, make all payments pursuant to the lease and manage the lease premises. Rental payments from existing sub-tenants will be deposited into a Company bank account such that Mr. Zizza will have use of those funds towards the monthly lease payment. Mr. Zizza will have the option on or before November 15, 2009 to continue the Master Sublease for the entire period of the lease. If Mr. Zizza fulfills his obligations under the Master Sublease during the one year initial period, he shall receive the funds from the next release from the Company's letter of credit approximating \$28,000. If Mr. Zizza exercises the option to continue the Master Sublease for the entire term of the lease, Mr. Zizza will be entitled to the balance of funds held under the letter of credit.

2) 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 ("LLC"), a Bion system to treat the waste of the dairy cows (milkers, dry cows and heifers) at the Kreider Dairy, located in Mannheim, Pennsylvania. In addition, the agreement provides for a second phase which will include a renewable energy facility that will treat cellulosic solid wastes from Phase 1 together with

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the waste stream from Kreider's poultry facilities to produce renewable energy for Bion's waste treatment facility and/or for market sales. The system will be owned and operated by Bion through LLC, in which Kreider will have the option to purchase a minority interest. To complete final design work and all building, zoning and other related pre-construction matters, substantial capital (equity and/or debt) has been and will continue to be expended. Additional funds will be expended for construction. Upon successful construction and operation of the system, the Company anticipates that it will receive revenue from the sale of nutrient (and other) environmental credits related to the Kreider system and through sales of renewable energy generated at the Kreider system. On January 26, 2009 the Board of the Pennsylvania Infrastructure Investment Authority (PENNVEST) approved a \$7.8 million loan to Bion for "the construction of a livestock waste treatment facility at Kreider Farms..." for the Phase 1 dairy portion of the Kreider Farms projects. The Company anticipates that the steps required to finalize the pre-construction phase of the Pennvest Loan will be completed during the next quarter and that the initial drawdown/reimbursement from Pennvest pursuant to the Pennvest Loan will be received shortly thereafter.

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3) The Company issued 200,000 shares of its restricted stock in January 2009 as prepayment for Mark Smith's calendar year 2009 salary of \$150,000, which the Company will expense as it is earned. As of June 30, 2009, the Company has \$75,000 of expense to recognize through December 31, 2009.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements (as that term is defined in Item 303 of Regulation S-K) that are reasonably likely to have a current or future material effect on our financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As of June 30, 2009, under the supervision and with the participation of the Company's Chief Executive Officer and Principal Financial Officer (the same person), management has evaluated the effectiveness of the design and operations of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2009 as a result of the material weakness in internal control over financial reporting discussed below.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting that occurred during the last fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13a-15(f). Our Chief Executive Officer

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and Principal Financial Officer (the same person) conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework").

Based on this evaluation, management has concluded that our internal control over financial reporting was not effective as of June 30, 2009. Our Chief Executive Officer and Principal Financial Officer concluded we have a material weakness due to lack of segregation of duties. Our size has prevented us from being able to employ sufficient resources to enable us to have an adequate level of supervision and segregation of duties within our internal control system. There is one person involved in the processing of the Company's accounting and banking transactions and a single person with overall supervision and review of the cash disbursements and receipts and the overall accounting process. Therefore while there are some compensating controls in place, it is difficult to ensure effective segregation of

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accounting duties. While we strive to segregate duties as much as practicable, there is an insufficient volume of transactions to justify additional full time staff. As a result of this material weakness, we have implemented remediation procedures whereby in May 2006 we engaged an outside accounting and consulting firm with SEC and US GAAP experience to assist us with the preparation of our financial statements, evaluation of complex accounting issues and the implementation of systems to improve controls and review procedures over all financial statement and account balances. We believe that this outside consultant's review improved our disclosure controls and procedures. If this review is effective throughout a period of time, we believe it will help remediate the segregation of duties material weakness. However, we may not be able to fully remediate the material weakness unless we hire more staff. We will continue to monitor and assess the costs and benefits of additional staffing.

Subsequent to the filing of the Annual Report on Form 10-K for the year ended June 30, 2009, management became aware of a classification error in our consolidated balance sheet and statement of stockholders' equity relating to the classification of our Series B Preferred stock as of June 30, 2009. As a result of this misstatement, management determined that the consolidated financial statements included in our Form 10-K for the year ended June 30, 2009 should be restated to correct this misstatement. This restatement is more fully discussed in Note 9 to our June 30, 2009 consolidated financial statements.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report on internal control in this annual report.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) EXHIBITS.

| EXHIBIT NUMBER | DESCRIPTION AND LOCATION |
|-------------------|--------------------------|
|-------------------|--------------------------|

-
- 3.1 Articles of Incorporation. (1)
 - 3.2 Bylaws. (1)
 - 10.1 Subscription Agreement dated January 10, 2002 between Bion Environmental Technologies, Inc and Centerpoint Corporation regarding issuance of stock in exchange for cash and claims regarding Aprilia. (1)
 - 10.2 Agreement dated March 15, 2002 and effective January 15, 2002 between Bion Environmental Technologies, Inc. and Centerpoint Corporation regarding purchase of warrant and management agreement. (1)
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- 10.3 Agreement dated February 12, 2003 between Bion Environmental Technologies, Inc. and Centerpoint Corporation canceling provisions of the Subscription Agreement by and between Bion Environmental Technologies, Inc. and Centerpoint Corporation. (1)
 - 10.4 Promissory Note and Security Agreement between Bion Environmental Technologies, Inc. and Bright Capital, LLC. (1)
 - 10.5 First Amendment to Lease between Bion Environmental Technologies, Inc. and Pan Am Equities Corp. (1)
 - 10.6 Agreement between Bion Environmental Technologies, Inc. and Bergen Cove. (1)
 - 10.7 Agreement between Bion Environmental Technologies, Inc. and David Mitchell dated April 7, 2003. (1)
 - 10.8 Letter Agreement with Bright Capital, Ltd. (1)
 - 10.9 Agreement with OAM, S.p.A. dated May 2003. (1)
 - 10.10 Amended Agreement with Centerpoint Corporation dated April 23, 2003. (1)
 - 10.11 Form of Series A Secured Convertible Notes issued in August 2003. (1)
 - 10.12 Financing Documents for Bion Dairy Corporation. (1)
 - 10.13 Form of Class SV/DB Warrant. (1)
 - 10.14 Form of Class SV/DM Warrant. (1)
 - 10.15 Form of Series A* Secured Convertible Notes issued in April 2004. (1)
 - 10.16 Form of Series B Secured Convertible Notes issued in Spring 2004. (1)
 - 10.17 Form of Series B* Secured Convertible Notes issued in June 2004. (1)

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- 10.18 Form of Series C Notes issued in September 2005. (1)
- 10.19 Form of 2006 Series A Convertible Promissory Notes issued in September 2006. (1)
- 10.20 Form of Non-Disclosure Agreement used by the Company. (1)
- 10.21 Promissory Note and Conversion Agreement between Bion Environmental Technologies, Inc. and Mark A. Smith related to deferred compensation. (1)

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- 10.22 Promissory Note and Conversion Agreement between Bion Environmental Technologies, Inc. and Bright Capital, Ltd. related to deferred compensation. (1)
- 10.23 Employment agreement with Mark A. Smith. (1)
- 10.24 Employment agreement with Salvatore Zizza. (1)
- 10.25 Employment agreement with Bright Capital, Ltd. (1)
- 10.26 Employment agreement with Jeff Kapell. (1)
- 10.27 Employment agreement with Jeremy Rowland. (1)
- 10.28 Office lease at 641 Lexington Avenue, 17th Floor, New York. (1)
- 10.29 2006 Consolidated Incentive Plan. (1)
- 10.30 Memo to Dominic Bassani & Bright Capital, Ltd. dated October 16, 2006 regarding Change in Title/Status of DB/Amendment to Brightcap Agreement. (1)
- 10.31 Letter Agreement between Bion Dairy Corporation and Fair Oaks Dairy Farms dated June 19, 2006. (2)
- 10.32 Waiver and Release Agreement with Ardour Capital Investments, LLC. (2)
- 10.33 Promissory Note and Conversion Agreement for Mark Smith, dated January 1, 2007. (2)
- 10.34 Promissory Note and Conversion Agreement for Salvatore Zizza, dated January 1, 2007. (2)
- 10.35 Promissory Note and Conversion Agreement for Bright Capital, Ltd., dated January 1, 2007. (2)
- 10.36 Extension Agreement dated March 31, 2007 between the Company and Mark A Smith. (3)
- 10.37 Form of Note dated March 31, 2007 in the amount of \$151,645.89 in favor of Mark A. Smith. (3)
- 10.38 Form of Note dated March 31, 2007 in the amount of \$379,389.04 in favor of Salvatore Zizza. (3)
- 10.39 Form of Note dated March 31, 2007 in the amount of \$455,486.30 in favor of Bright Capital, Ltd. (3)

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10.40 Stipulation and Agreement of Compromise and Release dated May 21, 2007 between Centerpoint Corporation, Bion Environmental Technologies, Richard Anderson and Joseph Foglia, as Plaintiffs, and Comtech Group, Inc., OAM S.p.A., Invested Ernst & Company and others as Defendants. (4)

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10.41 Stipulation and Agreement of Compromise, Settlement and Release dated May 15, 2007 between TCMP3 Partners, LLP as Plaintiff and Bion Environmental Technologies, Inc. and Bion Dairy Corporation, among others, as Defendants. (4)

10.42 Stipulation and Agreement of Compromise, Settlement and Release as to Certain Defendants dated May 15, 2007 between TCMP3 Partners, LLP as Plaintiff and certain defendants other than Bion Environmental Technologies, Inc. and Bion Dairy Corporation. (4)

10.43 Letter of Intent dated August 18, 2007 between Bion Environmental Technologies, Inc. and Evergreen Farm, Inc. (5)

10.44 Memorandum of Understanding with Kreider Farms (6)

10.45 Subscription Agreement from Bright Capital, Ltd. (7)

10.46 Amendment to 2006 Consolidated Incentive Plan (7)

10.47 Agreement between the Company and Mark A. Smith dated May 31, 2008. (7)

10.48 2007 Series AB Convertible Promissory Note. (8)

10.49 Promissory Note between Bion Environmental Technologies, Inc. and Salvatore Zizza (9)

10.50 Promissory Note between Bion Environmental Technologies, Inc. and Dominic Bassani (9)

10.51 Agreement between Jeff Kapell and Bion dated November 1, 2008 (10)

10.52 Agreement Between David Mager and Bion dated November 1, 2008 (10)

10.53 Promissory Note between Anthony Orphanos and Bion dated October 30, 2008, Guaranteed by Dominic Bassani (10)

10.54 Addendum to Settlement Agreement and Release Stipulation from Bion, Bion Dairy and Mark Smith dated October 31, 2008 (10)

10.55 Kreider Farms Agreement (September 25, 2008): REDACTED (11)

10.56 Agreement between Salvatore Zizza and Bion effective December 31, 2008 (12)

10.57 Amendment #3 to 2006 Consolidated Incentive Plan (12)

10.58 Agreement between Bright Capital, Ltd. and Dominic Bassani and Bion effective January 11, 2009 (13)

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10.59 Agreement between Mark A. Smith and Bion effective January 12, 2009 (13)

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10.60 Orphanos Extension Agreement dated January 13, 2009 (13)

10.61 Articles of Amendment including Statement of Designation and Determination of Preferences of Series B Convertible Preferred Stock (14)

10.62 Lease Agreement between Ronald Kreider and Kreider Farms and Bion PA 1 LLC dated June 26, 2009 (15)

10.63 Capitalization Agreement between Bion Companies and Bion PA 1 LLC dated June 30, 2009 (15)

21 Subsidiaries of the Registrant. (1)

23.1 Consent of GHP Horwath, P.C., Independent Registered Public Accounting Firm - Filed herewith electronically

31.1 Certification of Chief Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Filed herewith electronically

32.1 Certification of Chief Executive Officer and Principal Financial Officer Pursuant to Section 18 U.S.C. Section 1350 - Filed herewith electronically

-
- (1) Filed with Form 10SB12G on November 14, 2006.
 - (2) Filed with Form 10SB12G/A on February 1, 2007.
 - (3) Filed with Form 8-K on April 3, 2007.
 - (4) Filed with Form 9-K on August 13, 2007.
 - (5) Filed with Form 8-K on August 22, 2007.
 - (6) Filed with Form 8-K on February 27, 2008.
 - (7) Filed with Form 8-K on June 3, 2008.
 - (8) Filed with Form 8-K on June 19, 2008.
 - (9) Filed with Form 8-K on September 30, 2008.
 - (10) Filed with Form 8-K on November 13, 2008.
 - (11) Filed with September 30, 2008 Form 10-Q on November 14, 2008.
 - (12) Filed with Form 8-K on January 6, 2009.
 - (13) Filed with Form 8-K on January 15, 2009.
 - (14) Filed with March 31, 2009 Form 10-Q on May 14, 2009.
 - (15) Filed with Form 8-K on July 2, 2009.

(b) FINANCIAL STATEMENT SCHEDULES.

Our consolidated financial statements being filed as part of this Form 10-K/A are filed on Item 8 of this Form 10-K/A. All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

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Board of Directors and Stockholders
Bion Environmental Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Bion Environmental Technologies, Inc. and subsidiaries ("the Company") as of June 30, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bion Environmental Technologies, Inc. and subsidiaries as of June 30, 2009 and 2008, and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has not generated revenue and has suffered recurring losses from operations. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 9 to the consolidated financial statements, the Company restated its consolidated financial statements as of June 30, 2009, to correct a classification misstatement in the presentation of its redeemable preferred stock.

/s/ GHP HORWATH, P.C.

Denver, Colorado
September 23, 2009 (November 12, 2009
as to the effects of the restatement
discussed in Note 9)

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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| | June 30, 2009 | June 30, 2008 |
|--|------------------|------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,695,713 | \$ 478,899 |
| Prepaid rent and expenses | 12,217 | 9,130 |
| Other receivable - affiliate | 8,797 | - |
| Deposits and other receivables | 11,956 | 12,068 |
| | ----- | ----- |
| Total current assets | 1,728,683 | 500,097 |
| | ----- | ----- |
| Restricted cash (Note 13) | 85,973 | 128,443 |
| Property and equipment, net (Note 4) | 477,229 | 59,504 |
| | ----- | ----- |
| Total assets | \$ 2,291,885 | \$ 688,044 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 834,638 | \$ 567,811 |
| Accrued payable - affiliate (Note 16) | 41,647 | 41,647 |
| Loans payable - affiliates (Note 6) | 162,500 | - |
| Deferred compensation (Note 8) | 175,000 | 25,000 |
| | ----- | ----- |
| Total current liabilities | 1,213,785 | 634,458 |
| Convertible promissory notes - affiliates | | |
| (Note 5) | - | 784,122 |
| Deferred compensation (Note 8) | 150,000 | |
| Deferred rent (Note 13) | 73,232 | 71,865 |
| | ----- | ----- |
| Total liabilities | 1,437,017 | 1,490,445 |
| | ----- | ----- |
| Minority interest (Note 3) | 111,790 | 117,692 |
| | ----- | ----- |
| Series B Redeemable Convertible Preferred stock, \$.01 par value, 50,000 shares authorized, 21,320 shares issued and outstanding; liquidation preference of \$2,144,876 (restated, Note 9) | 1,867,716 | - |
| | ----- | ----- |
| Stockholders' deficit (restated, Note 9): | | |
| Series A Preferred stock, \$0.01 par value, 10,000 shares authorized, no shares issued and outstanding | - | - |
| Common stock, no par value, 100,000,000 shares authorized, 12,126,448 and 11,070,658 shares issued, respectively, 11,422,139 and 10,366,349 shares outstanding, respectively | - | - |
| Additional paid-in capital | 74,529,507 | 73,422,195 |
| Accumulated deficit | (75,654,145) | (74,342,288) |
| | ----- | ----- |
| Total stockholders' deficit | (1,124,638) | (920,093) |
| | ----- | ----- |
| Total liabilities and stockholders' deficit | \$ 2,291,885 | \$ 688,044 |
| | ===== | ===== |

See notes to consolidated financial statements.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED JUNE 30, 2009 AND 2008

| | 2009 | 2008 |
|--|----------------|----------------|
| | ----- | ----- |
| Revenue | \$ - | \$ - |
| | ----- | ----- |
| Operating expenses: | | |
| General and administrative (including stock-based compensation (Note 9)) | 1,959,810 | 2,089,015 |
| Research and development (including stock-based compensation (Note 9)) | 357,331 | 791,931 |
| | ----- | ----- |
| Total operating expenses | 2,317,141 | 2,880,946 |
| | ----- | ----- |
| Loss from operations | (2,317,141) | (2,880,946) |
| | ----- | ----- |
| Other expense and (income): | | |
| Interest expense | 38,401 | 186,320 |
| Interest income | (1,773) | (21,489) |
| Minority interest (Note 3) | (5,902) | 117,692 |
| Forfeiture of deferred compensation (Note 5) | (959,184) | - |
| Extinguishment of liabilities (Note 11) | (1,826) | (126,712) |
| Other, net (Note 10) | (75,000) | (1,258,195) |
| | ----- | ----- |
| | (1,005,284) | (1,102,384) |
| | ----- | ----- |
| Net loss | (1,311,857) | (1,778,562) |
| Dividends on preferred stock | (12,876) | - |
| | ----- | ----- |
| Net loss applicable to common stockholders | \$ (1,324,733) | \$ (1,778,562) |
| | ===== | ===== |
| Net loss per basic and diluted common share: | \$ (0.12) | \$ (0.21) |
| | ===== | ===== |
| Weighted-average number of common shares outstanding, basic and diluted | 10,684,962 | 8,383,068 |
| | ===== | ===== |

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
YEARS ENDED JUNE 30, 2009 AND 2008

| | Common Shares | Stock Amount | Additional paid-in capital | Accumulated deficit | Total stockholders' deficit (restated Note 9) |
|--|------------------|-----------------|-------------------------------|------------------------|---|
| | ----- | ----- | ----- | ----- | ----- |
| Balances, June 30, 2007 | 8,770,079 | \$ - | \$67,900,379 | \$ (72,563,726) | \$ (4,663,347) |
| Exchange/conversion of debt to common stock - affiliates | 890,124 | - | 1,943,352 | - | 1,943,352 |
| Exchange/conversion of debt to common stock - non-affiliates | 817,912 | - | 1,635,810 | - | 1,635,810 |
| Conversion of deferred compensation to common stock | 265,043 | - | 530,085 | - | 530,085 |
| Sale of common stock, net of offering costs of \$20,000 | 325,000 | - | 630,000 | - | 630,000 |
| Issuance of common stock for services | 2,500 | - | 5,000 | - | 5,000 |
| Issuance of warrants for services | - | - | 17,000 | - | 17,000 |
| Issuance of warrants | - | - | 16,000 | - | 16,000 |
| Vesting of options for services | - | - | 744,569 | - | 744,569 |
| Net loss | - | - | - | (1,778,562) | (1,778,562) |
| | ----- | ----- | ----- | ----- | ----- |
| Balances, June 30, 2008 | 11,070,658 | - | 73,422,195 | (74,342,288) | (920,093) |
| | ----- | ----- | ----- | ----- | ----- |
| Vesting and remeasurement of options for services | - | - | 143,153 | - | 143,153 |
| Issuance of common stock for services | 290,343 | - | 177,370 | - | 177,370 |
| Issuance of warrants for services | - | - | 180,582 | - | 180,582 |
| Sale of common stock | 446,667 | - | 380,000 | - | 380,000 |
| Dividends on Series B Preferred stock | - | - | (12,876) | - | (12,876) |
| Conversion of debt to equity | 318,780 | - | 239,083 | - | 239,083 |
| Net loss | - | - | - | (1,311,857) | (1,311,857) |
| | ----- | ----- | ----- | ----- | ----- |
| Balances, June 30, 2009 | 12,126,448 | \$ - | \$74,529,507 | \$ (75,654,145) | \$ (1,124,638) |
| | ===== | ===== | ===== | ===== | ===== |

See notes to consolidated financial statements.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

| | 2009 | 2008 |
|---|----------------|----------------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (1,311,857) | \$ (1,778,562) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation expense | 15,454 | 16,253 |
| Accrued interest on convertible notes and debt | 33,069 | 186,320 |
| Stock-based compensation | 493,188 | 782,569 |
| Forfeiture of deferred compensation | (959,184) | - |
| Decrease in fair value of convertible notes | - | (560,770) |
| Minority interest | (5,902) | 117,692 |
| Decrease in prepaid rent and expenses | 4,830 | 10,980 |
| Increase in deposits and other receivables | (8,685) | (9,223) |
| Increase (decrease) in accounts payable and accrued expenses | 266,827 | (80,506) |
| Increase in deferred rent | 1,367 | 5,892 |
| Increase in deferred compensation | 516,076 | 741,780 |
| | ----- | ----- |
| Net cash used in operating activities | (954,817) | (567,575) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Decrease in restricted cash | 42,470 | 43,502 |
| Proceeds from refund of property and equipment | - | 5,258 |
| Purchase of property and equipment | (433,179) | (5,395) |
| | ----- | ----- |
| Net cash (used in) provided by investing activities | (390,709) | 43,365 |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from sale of common stock | 380,000 | 630,000 |
| Proceeds from sale of Series B preferred stock | 1,854,840 | - |
| Proceeds from loans payable - affiliates | 162,500 | - |
| Proceeds from notes payable - affiliates | 165,000 | - |
| | ----- | ----- |
| Net cash provided by financing activities | 2,562,340 | 630,000 |
| | ----- | ----- |
| Net increase in cash and cash equivalents | 1,216,814 | 105,790 |
| Cash and cash equivalents at beginning of year | 478,899 | 373,109 |
| | ----- | ----- |
| Cash and cash equivalents at end of year | \$ 1,695,713 | \$ 478,899 |
| | ===== | ===== |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest and income taxes | \$ - | \$ - |
| Non-cash investing and financing transactions: | | |
| Exchange/conversion of debt to common stock | \$ 239,083 | \$ 3,579,162 |
| Conversion of deferred compensation to convertible notes - affiliates | - | 375,000 |
| Conversion of deferred compensation to common stock | - | 530,085 |

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See notes to consolidated financial statements.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008

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.

Bion's patented and proprietary technology provides a comprehensive environmental solution to a significant source of pollution in US agriculture, Confined Animal Feeding Operations ("CAFO's"). Bion's technology produces substantial reductions of both nutrient releases to water and air emissions including ammonia (which is subsequently re-deposited to the ground) from livestock waste streams based upon our research to date. Because Bion's technology reduces the harmful releases and emissions from a CAFO on which it is utilized, the CAFO can potentially increase its herd concentration while lowering or maintaining its level of nutrient releases and atmospheric emissions.

From 2003 through early 2008, the Company primarily focused on completing re-development of its technology platform and business model. As such, during that period we elected not to pursue near term revenue opportunities such as retrofitting existing CAFO's with our waste management solutions, because such efforts would have diverted scarce management and financial resources and negatively impacted our ability to complete: 1) re-development of our technology for environmentally sound treatment of CAFO waste streams and 2) development of our integrated technology platform in support of large-scale sustainable Integrated Projects including renewable energy production.

Bion is now actively pursuing business opportunities in two broad areas: 1) retrofit and environmental remediation of existing CAFOs to clean the air and water in the surrounding areas (as described below) and 2) development of "closed loop" Integrated Projects (defined below).

We believe that Bion's technology platform allows 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, generates 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 CAFOs and/or slaughter and/or processing facilities in the context of beef CAFOs) and/or other users as a natural gas replacement. Bion is presently involved in pre-development evaluations

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

1. ORGANIZATION, NATURE OF BUSINESS, GOING CONCERN AND MANAGEMENT'S PLANS:
(CONTINUED):

regarding opportunities for Integrated Projects in New York (beef), Nebraska (dairy) and elsewhere.

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 ("LLC")) a Bion system to treat the waste of the milking dairy cows (milkers, dry cows and heifers) at the Kreider Dairy, located in Mannheim, Pennsylvania. In addition, the agreement provides for a second phase which will include a renewable energy facility ("REF") that will treat the cellulosic solid wastes from Phase 1 together with the waste stream from Kreider's poultry facilities to produce renewable energy for Bion's waste treatment facility and/or for market sales. The Phase 1 system will be owned and operated by Bion through LLC, in which Kreider will have the option to purchase a minority interest. To complete final design work and all building, zoning and other related pre-construction matters, substantial capital (equity and/or debt) has been and will continue to be expended. Additional funds will be expended for construction. Upon successful construction and operation of these systems, the Company anticipates that it will earn revenue from the sale of nutrient (and other) environmental credits related to the Kreider system and through sales of renewable energy generated by the Kreider systems.

During January 2009, the Board of Pennsylvania Infrastructure Investment Authority ("Pennvest") approved a loan up to \$7.8 million ("Pennvest Loan") to LLC for development and construction of the Phase 1 System at Kreider. The Pennvest Loan is structured in phases (pre and post-completion of permitting/commencement of construction) and Pennvest's disbursements will take the form of reimbursement of qualified sums expended by LLC. In connection with the Pennvest Loan the Company has provided a 'technology guaranty' regarding nutrient reduction performance of the Kreider System which will expire when the Kreider System's nutrient reduction performance has been demonstrated. The Company completed the steps required to finalize the pre-construction phase of the Pennvest loan during September 2009. The Company anticipates that the steps required to finalize the pre-construction phase of the Pennvest Loan will be completed during the next quarter and that the initial drawdown/re-imburement from Pennvest pursuant to the Pennvest Loan will be received shortly thereafter. Bion is in the process of finalizing its design for the Phase 1 Kreider System and has commenced the permitting process. It is anticipated that construction will commence during the fall of 2009 and be completed during the 2010 fiscal year.

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1. ORGANIZATION, NATURE OF BUSINESS, GOING CONCERN AND MANAGEMENT'S PLANS (CONTINUED) :

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 revenue and has incurred net losses of approximately \$1,312,000 and \$1,779,000 during the years ended June 30, 2009 and 2008, 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.

As discussed in Notes 9 and 17, the Company recently completed an offering of the Company's Series B Preferred shares, which as of June 30, 2009 resulted in the issuance of 21,320 shares at \$100 per share resulting in net proceeds to the Company of \$1,854,840. Subsequent to June 30, 2009, the Company issued an additional 6,850 shares resulting in net proceeds to the Company of \$595,950.

At June 30, 2009, the Company has a working capital surplus and stockholders' deficit of approximately \$515,000 and \$1,124,638, respectively.

The Company continues to explore sources of additional financing to satisfy its current operating requirements.

While the Company currently does not face a severe working capital shortage, it is not currently generating any revenues. The Company will need to obtain additional capital to fund its operations and technology development, to satisfy existing creditors, to develop Projects and to construct the Kreider Farm facilities. The Company anticipates that it will seek to raise from \$5,000,000 to \$50,000,000 (debt and equity) during the next twelve months. There is no assurance, especially in the extremely unsettled capital markets that presently exist, 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.

There can be no assurance that funds required during the next twelve months or thereafter will be generated from operations or that those funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital resulting from the inability to generate cash flow from operations 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

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

1. ORGANIZATION, NATURE OF BUSINESS, GOING CONCERN AND MANAGEMENT'S PLANS (CONTINUED) :

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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.

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. (formerly Bion Dairy Corporation ("Projects Group")), Bion Technologies, Inc., BionSoil, Inc., Bion Services, LLC and its majority owned subsidiary, Centerpoint Corporation ("Centerpoint") (Note 3). All significant intercompany accounts and transactions have been eliminated in consolidation.

Property and equipment:

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the related assets, generally three to ten 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. Management believes that no impairment exists at June 30, 2009.

Income taxes:

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases, as well as net operating losses.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets or liabilities of a change in tax rates is recognized in the period in which the tax change occurs. A valuation allowance is provided to reduce the deferred tax assets to a level, that more likely than not, to be realized.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 ("FIN 48"), on July 1, 2007. There were no unrecognized tax benefits and, accordingly, there was no effect on the Company's financial condition or results of operations as a result of implementing FIN 48.

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The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is no longer subject to U.S. federal and state tax examinations for fiscal years before 2003. Management does not believe there will be any material changes in the Company's unrecognized tax positions over the next 12 months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, there were no penalties or accrued interest amounts associated with any unrecognized tax benefits, nor was any interest expense recognized during the year.

Cash and cash equivalents:

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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 years ended June 30, 2009 and 2008, the basic and diluted loss per share is the same, as the impact of potential dilutive common shares is anti-dilutive.

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

| | June 30, 2009 | June 30, 2008 |
|------------------|---------------|---------------|
| Warrants | 4,490,616 | 3,556,667 |
| Options | 1,995,833 | 2,183,333 |
| Convertible debt | 388,864 | 196,031 |
| Preferred stock | 1,072,438 | - |

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The following is a reconciliation of the denominators of the basic loss per share computations for the years ended June 30, 2009 and 2008.

| | Year ended June 30, 2009 | Year ended June 30, 2008 |
|--------------------------------------|-----------------------------|-----------------------------|
| Shares issued - beginning of period | 11,070,658 | 8,770,079 |
| Shares held by subsidiaries (Note 9) | (704,309) | (693,799) |
| Shares outstanding - beginning of | ----- | ----- |

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| | | |
|--|------------|-----------|
| period | 10,366,349 | 8,076,280 |
| Weighted average shares issued during the period | 318,613 | 306,788 |
| | ----- | ----- |
| Basic weighted average shares - end of period | 10,684,962 | 8,383,068 |
| | ===== | ===== |

Fair value of financial instruments:

Effective July 1, 2008, the Company partially adopted SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about fair value measurements. As permitted by FASB Staff Position No. FAS 157-2, Effective Dates of FASB Statement No. 157, the Company elected to defer the adoption of the nonrecurring fair value measurement disclosure of nonfinancial assets and liabilities until July 1, 2009. The adoption of SFAS No. 157 did not have a material impact on the Company's results of operations, cash flows or financial position.

To increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs into valuation techniques used to measure fair value into three levels as follows:

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

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 YEARS ENDED JUNE 30, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 values of cash and cash equivalents and accounts payable approximates their carrying amounts due to their short-term maturities. It is

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not practicable to estimate the fair value of the accounts payable-affiliate, and loans payable to affiliates due to the related party nature of the underlying transactions.

Stock-based compensation:

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements and the cost is measured based on the grant date fair value of the award. The stock option compensation expense is recognized over the period during which an employee is required to provide service in exchange for the award (the requisite service period). The Company utilizes the Black-Scholes option-pricing model to determine fair value. Key assumptions of the Black-Scholes option-pricing model include applicable volatility rates, risk-free interest rates and the instrument's expected remaining life. These assumptions require significant management judgment.

The Company has issued non-employee options that include service conditions and have graded vesting schedules. Generally for these arrangements, the measurement date of the services occurs when the options vest. In accordance with Emerging Issues Task Force ("EITF") Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services ("EITF 96-18"), recognition of compensation cost for reporting periods prior to the measurement date is based on the then current fair value of the options. Fair value of the options is determined using a Black-Scholes option-pricing model. Any

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

subsequent changes in fair value will be recorded on the measurement date. Compensation cost in connection with options that are not fully vested is being recognized on a straight-line basis over the requisite service period for the entire award.

Use of estimates:

In preparing the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of credit risk:

The Company's financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalents. The Company's cash and cash equivalents are in demand deposit accounts placed with federally insured financial institutions and selected brokerage accounts. Such deposit accounts at times may exceed federally insured limits. The Company has not experienced any losses on such accounts.

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Comprehensive income (loss):

SFAS No. 130, Reporting Comprehensive Income, establishes standards for reporting and display of comprehensive income (loss), its components, and accumulated balances. For the years ended June 30, 2009 and 2008, there was no difference between net loss and comprehensive loss.

Revenue recognition:

While the Company has not reported any revenues for the years ended June 30, 2009 and 2008, the Company anticipates that future revenues will be generated from product sales and technology license fees. The Company expects to recognize revenue from product sales 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

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

performance requirements of the agreement. Annual waste treatment fees will be recognized upon receipt. Revenues, if any, from the Company's interest in Projects will be recognized when the entity in which the Project has been developed recognizes such revenue.

Recent accounting pronouncements:

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115 ("SFAS 159"). This statement permits entities to choose to measure eligible items at fair value at specified election dates. SFAS 159 was effective for the Company on July 1, 2008. The adoption of SFAS 159 did not have a material impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R continues to require the purchase method of accounting to be applied to all business combinations, but it significantly changes the accounting for certain aspects of business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing non-controlling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after July 1, 2009 for the Company. The Company does not expect that the adoption of SFAS 141R will have an impact on its consolidated financial statements unless the Company enters into business

acquisitions in the future.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary (minority interest) is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and separate from the parent company's equity. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated statement of operations, of the amounts of consolidated net income attributable to the parent and to the non-

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

controlling interest. This statement is effective for the Company on July 1, 2009. At that date, the Company will report the non-controlling interest in a subsidiary (which amounts to \$111,790 at June 30, 2009) as a component of stockholders' equity. This will have the immediate effect of increasing stockholders' equity by \$111,790. The Company is currently evaluating the effect the adoption of other provisions of this statement may have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring that the objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. The statement is effective for the Company on January 1, 2009. The Company does not expect that the adoption of SFAS 161 will have an impact on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board auditing amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company does not expect SFAS 162 to have an effect on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 163, Accounting for Financial Guarantee Insurance Contracts - an interpretation of FASB Statement No. 60. ("SFAS 163"). SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation.

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SFAS 163 also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. SFAS 163 requires expanded disclosures about financial guarantee insurance contracts. SFAS 163 will be effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of FAS 163 will have any impact on its consolidated financial statements.

In June 2008, the FASB issued EITF Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock ("EITF 07-5"). EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. EITF 07-5 will require the application of a two-step model in determining whether a financial instrument or an embedded feature is indexed

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

to an issuer's own stock, including evaluation of the instrument's contingent exercise and settlement provisions. This statement is effective for the Company on July 1, 2009. The Company is currently assessing the impact the adoption of this statement may have on its consolidated financial statements.

In April 2009, the FASB issued FSP SFAS 107-1 and Accounting Principles Board ("APB") 28-1, Interim Disclosures about Fair Value of Financial Instruments ("FSP 107-1"), which will require that the fair value disclosures required for all financial instruments within the scope of SFAS 107, Disclosures about Fair Value of Financial Instruments, be included in interim financial statements. This FSP also requires entities to disclose the method and significant assumptions used to estimate the fair value of financial instruments on an interim and annual basis and to highlight any changes from prior periods. FSP 107-1 will be effective for interim periods ending after June 15, 2009. The adoption of FSP 107-1 is not expected to have a material impact on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS No. 165), which updates previous guidance under GAAP by replacing "type 1" and "type 2" with "recognized" and "unrecognized," and requires disclosure in financial statements of the date through which subsequent events have been evaluated. SFAS No. 165 is effective for interim and annual periods after June 15, 2009 and was adopted by the Company beginning in the fourth quarter of its fiscal year 2009. The adoption of SFAS No. 165 did not have a material impact on the Company's consolidated results of operation and financial condition.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of SFAS 162 (SFAS No. 168), establishing codification, which integrates and categorizes all guidance by standard setters within levels A through D of the previous GAAP hierarchy. SFAS No. 168 will replace all existing GAAP for non-governmental entities and will establish a new hierarchy of GAAP, both authoritative and non-authoritative. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009 and will be adopted by the Company beginning in the first quarter of its fiscal year 2010. The Company does not expect the adoption to have a material

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impact on its consolidated results of operations and financial condition.

3. MINORITY INTEREST OF CENTERPOINT CORPORATION:

In January 2002, Bion purchased a 57.7% majority interest in Centerpoint from a third party. On April 30, 2008, Centerpoint received and cancelled 126,000 shares of its previously outstanding common stock in connection with a litigation settlement, which increased Bion's ownership from 57.7% to 58.9%.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

3. MINORITY INTEREST OF CENTERPOINT CORPORATION (CONTINUED):

Prior to July 1, 2008, the losses applicable to the minority interest in Centerpoint exceeded the minority interest in the equity capital of Centerpoint, therefore the loss attributable to the minority interest was charged against the Company's earnings, as there was no obligation of the minority interest to make good on such losses. During the year ended June 30, 2008, Centerpoint had earnings of approximately \$673,700, of which the Company utilized approximately \$395,500 to offset minority interest losses previously absorbed. The remaining \$278,200 was allocated between the Company and Centerpoint's minority interest holders, resulting in a minority interest of \$117,692 as of June 30, 2008. The minority interest as of June 30, 2009 was \$111,790.

4. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

| | 2009 | 2008 |
|------------------------------------|------------|------------|
| | ----- | ----- |
| Research and development equipment | \$ 305,266 | \$ 305,266 |
| Project construction in progress | 433,179 | - |
| Leasehold improvement | 31,336 | 31,336 |
| Furniture | 28,932 | 28,932 |
| Computers and office equipment | 31,680 | 31,680 |
| | ----- | ----- |
| | 830,393 | 397,214 |
| Less accumulated depreciation | (353,164) | (337,710) |
| | ----- | ----- |
| | \$ 477,229 | \$ 59,504 |
| | ===== | ===== |

Depreciation expense was \$15,454 and \$16,253 for the years ended June 30, 2009 and 2008, respectively.

5. CONVERTIBLE PROMISSORY NOTES:

2006 Series A Convertible Promissory Notes:

On September 13, 2006, the Company closed the offering of its 2006 Series A Convertible Promissory Notes, totaling \$700,000 (the "2006 Notes"). The holders of the 2006 Notes earned interest on the unpaid principal balance of the 2006 Notes at 6% per annum, payable on May 31, 2008, the maturity date of the 2006 Notes. On May 31, 2008 the 2006 Notes and accrued interest of

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\$779,074 were exchanged, via subscription agreements, for 389,543 shares of restricted common stock of the Company at \$2.00 per share which approximated the market price of the stock at the time of conversion.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2009 AND 2008

5. CONVERTIBLE PROMISSORY NOTES (CONTINUED):

During the fourth quarter of 2009, the Company determined that the conversion of the 2006 Notes during fiscal year 2008 resulted in a non-cash inducement expense of \$519,382 that should have been recognized for the year ended June 30, 2008. Management evaluated this matter in the context of Staff Accounting Bulletin No. 99 - "Materiality" and determined that the error was not material to previously issued financial statements.

2007 Series A Convertible Promissory Notes:

In March and April 2007, the Company sold \$800,000 of its Convertible Notes (the "Notes") for cash proceeds. In addition, the Company issued Notes to affiliates totaling \$986,521 in exchange for promissory notes with convertible features and deferred compensation (Note 8). The Notes were convertible into shares of the Company's common stock at the price of \$4.00 per share until maturity on July 1, 2008, or at the election of the Note holders, and accrued interest at 6% per annum. The Note holders also had the option to exchange the Notes, plus interest, for securities substantially identical to securities the Company sold in any offering prior to the completion of an offering in which the Company raised less than \$3,000,000. The Company had the right to require the Notes (principal plus interest) be converted into its common shares at the lesser of \$4.00 per share or the price of an offering in which the Company raised \$3,000,000 or more.

On May 31, 2008, all of the non-affiliate Note holders, at their election per the terms of their original Notes, converted their Notes totaling \$856,737 including accrued interest into 428,369 restricted common shares of the Company. Also on May 31, 2008, Notes held by affiliates totaling \$650,427 including accrued interest were converted into 325,214 common shares of the Company. These Notes were converted at a price of \$2.00 per share, the price at which the Company sold common stock during the same period.

On June 18, 2008 the remaining affiliated holder of the outstanding Notes increased the principal of his Note, maturing on July 1, 2013, by \$375,000 to \$784,122, which represented the potential deferred compensation (subject to forfeiture) through June 30, 2008. The holder, Salvatore Zizza, former Chairman of Projects Group, agreed to add his future compensation from the Company to his Note as it accrued. As of December 31, 2008, the principal and interest on the Note totaled \$959,184. Pursuant to an agreement dated December 19, 2008, (the "Zizza Agreement" see Note 15), Mr. Zizza agreed to no longer provide services to the Company effective December 31, 2008. In conjunction with the Zizza Agreement, Mr. Zizza's Note was returned to the Company on December 31, 2008 and it was cancelled, which resulted in the

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

5. CONVERTIBLE PROMISSORY NOTES (CONTINUED):

Company's recognition of income due to forfeiture of deferred compensation of \$959,184. The deferred compensation underlying the convertible note had not yet vested at the date the Note was cancelled. In addition, the Note was subject to certain risks of forfeiture and/or cancellation.

The Notes accrued interest of \$25,062 and \$103,630 for the years ended June 30, 2009 and 2008, respectively.

6. LOANS PAYABLE - AFFILIATES:

As of June 30, 2009, Dominic Bassani, Vice-President Special Project and Strategic Planning for the Projects Group, Mark A. Smith, the Company's President, and a major shareholder have loaned the Company \$120,000, \$7,500 and \$35,000, respectively, for working capital needs. The loans, totaling \$162,500 as of June 30, 2009, are non-interest bearing and were repaid in July 2009.

7. PROMISSORY NOTES PAYABLE - AFFILIATES:

During September 2008, Mr. Zizza and Mr. Bassani loaned the Company \$50,000 each under separate promissory notes. Under the terms of the promissory notes, which allowed for additional monies to be loaned, the notes bear interest at 8% per annum and were payable on or before February 1, 2009. Pursuant to the Zizza Agreement (Note 15) and the Brightcap Agreement (Note 15), the terms of the promissory notes were amended to allow for the conversion of the interest and principal of the notes, in whole or in part, into shares of the Company's restricted common stock at a price of \$0.75 per share, which was equal to the fair value at the date of the agreements. The maturity dates of the Zizza and Bassani promissory notes were extended to June 30, 2009 at which date the promissory notes (including accrued interest) of \$52,268 and \$52,277, respectively, were converted into 69,692 and 69,703 shares of the Company's common stock.

During October 2008, a major shareholder loaned the Company \$65,000 under a promissory note. Under the terms of the promissory note, which allowed for additional monies to be loaned, the note bears interest at 8% per annum and was payable on or before March 1, 2009. In January 2009, an agreement was reached whereby the maturity of the \$65,000 promissory note was extended to June 30, 2009 in consideration of a) at the election by the note holder, the ability to convert the principal and interest into the Company's restricted common stock at \$0.75 per share, the fair value of the shares, at any date prior to repayment and b) the issuance of a warrant to purchase 15,000 shares of the Company's common stock at \$0.75 per share until December 31, 2018. The modification of the debt was not materially different from the original

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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7. PROMISSORY NOTES PAYABLE - AFFILIATES (CONTINUED):

debt and there were no beneficial conversion features present with the modification. The promissory note (including accrued interest) of \$68,462 was converted into 91,283 shares of the Company's common stock on June 30, 2009.

The promissory notes accrued interest of \$8,007 for the year ended June 30, 2009.

8. DEFERRED COMPENSATION:

As of July 1, 2007, the Company had recorded deferred compensation liabilities of \$187,500 due to three officers of the Company. The Company accrued \$750,000 (\$150,000 to Mr. Smith, \$300,000 to Brightcap Capital Ltd. ("Brightcap") for services provided by Mr. Bassani, and \$300,000 to Mr. Zizza) as deferred compensation during the year ended June 30, 2008.

During fiscal year 2008, the Company entered into an agreement with Brightcap converting deferred compensation of \$350,000 owed as of May 31, 2008 into a promissory note with a conversion agreement. The convertible note plus accrued interest totaling \$350,805 was exchanged for 175,403 common shares at \$2.00 per share of the Company on June 15, 2008. In addition, the Company entered into an extension agreement with Mr. Smith which allowed for the conversion of deferred compensation accrued through June 30, 2008 of \$179,280 into 89,640 common shares of the Company at \$2.00 per share. As the conversion price of \$2.00 per shares approximated the fair value of the shares at the time the conversion agreement was entered into, no beneficial conversion feature existed. Also during fiscal year 2008, the Company mutually agreed with Mr. Zizza to convert his deferred compensation earned through June 30, 2008 of \$375,000, and his ongoing compensation as it accrues to additional principal to his Note. Mr. Zizza's Note was cancelled on December 31, 2008 (see Note 15).

As of June 30, 2009 the Company owed Brightcap deferred compensation of \$325,000. The Company entered into the Brightcap Agreement (see Note 15), whereby the deferred compensation of Brightcap owed as of December 31, 2008 totaling \$175,000, was made convertible until December 31, 2009 into the Company's restricted common stock, at Brightcap's option, at a price of \$0.75 per share, the fair value of the shares of the Company's stock at the date of the agreement. As the conversion price of \$0.75 per shares approximated the fair value of the shares at the time the conversion agreement was entered into, no beneficial conversion feature existed. The Company entered into another agreement with Brightcap in June 2009, whereby the deferred compensation earned by Brightcap from January 1, 2009 through June 30, 2009, totaling \$150,000, was made due July 1, 2010 and convertible until July 1, 2010 into the Company's restrict common stock, at Brightcap's option, at a

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

8. DEFERRED COMPENSATION (CONTINUED):

price of \$1.50 per share, the fair value of the shares at the date of the

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agreement. As the conversion price of \$1.50 per share approximated the fair value of the shares at the time the conversion agreement was entered into, no beneficial conversion feature existed.

9. STOCKHOLDERS' EQUITY:

Series B Preferred stock:

During March 2009, the Company authorized the issuance of 50,000 shares of Series B Preferred stock which have a par value of \$0.01 per share and issuable at a price of \$100 per share. The Series B Preferred stock is convertible for three years from the date of issuance at the option of the holder into shares of the Company's common stock calculated by dividing the sum of the \$100 per share purchase price plus any accrued and unpaid dividends by \$2.00 (the Conversion Rate). The Series B Preferred stock shall be automatically and mandatorily converted into shares of the Company's common stock at the Conversion Rate share upon each occasion (at least 30 calendar days apart) after a date of six months subsequent to the initial issuance of the Series B Preferred stock on which the closing price of the Company's common stock have been equal or greater than 150% of the Conversion Rate (initially \$3.00) for twenty consecutive trading days with a reported average daily trading volume of 10,000 shares or more. The Series B Preferred stock may be redeemable at the option of the Company after one year from the issuance on 10 days' written notice, at a price equal to \$100 per share plus any accrued unpaid dividends. During the 10 day period, the holder may elect to convert the Series B Preferred stock to the Company's common stock at the Conversion Rate. On the third anniversary of issuance, the Company shall redeem the outstanding Series B Preferred stock at the price of \$100 per share plus any accrued unpaid dividends. The Series B Preferred stock accrue dividends at a rate of 2.5% per quarter and shall be earned and accrued or paid quarterly.

In November 2009, the Company determined that the Series B Preferred stock was misclassified as an element of stockholders' equity in the Company's previously issued June 30, 2009, consolidated financial statements. This amount has been reclassified and properly presented outside of stockholders' equity at June 30, 2009. This reclassification had no impact on previously presented net loss, net loss applicable to common stockholders, net loss per basic and diluted common share or cash flows.

Because the Series B Preferred stock is redeemable in cash at a fixed price (\$100 per share plus accrued unpaid dividends) on a fixed date (the third anniversary of issuance), the Company has classified the Series B Preferred stock outside of stockholders' equity pursuant to SEC Accounting Series Release No. 268 (ASR 268). In accordance with ASR 268, the redemption value as of June 30, 2009 should be recorded outside of stockholders' equity, as temporary equity in the accompanying consolidated balance sheet. Dividends on the Series B Preferred stock have been properly reflected as part of the carrying value of the Series B Preferred stock, with an offset to reduce additional paid-in capital, and were previously properly included in the determination of net loss applicable to common stockholders.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

9. STOCKHOLDERS' EQUITY (CONTINUED):

During the year ended June 30, 2009, the Company issued 21,320 shares of

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Series B Preferred stock for cash proceeds of \$2,132,000 (net proceeds of \$1,854,840 after commissions. On July 29, 2009, the Company concluded the offering with total sales 28,170 shares (6,850 shares sold after June 30, 2009) of its Series B Convertible Preferred Shares and received net proceeds of approximately \$2,450,000 after commissions and offering expenses.

The Company declared dividends on July 29, 2009, for the Series B Preferred stockholders with a record date of June 30, 2009, totaling \$12,876 which were paid on August 15, 2009.

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.

As of July 1, 2007, Centerpoint held 693,799 shares of the Company's common stock. As a result of Company common shares being distributed pursuant to a settlement in April 2008 (Note 10), Centerpoint obtained an additional 10,510 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.

In December 2007, under the terms of a promissory note with a conversion agreement, Mr. Smith converted deferred compensation plus interest of \$412,125 into 274,750 common shares of the Company's common stock.

In May 2008, the Company issued 2,500 shares of common stock to a consultant for services valued at \$5,000. The number of shares issued was based upon the market price of the common shares at the time the service agreement was entered into.

On May 31, 2008, under the terms of a subscription agreement, the holders of convertible promissory notes exchanged the principal plus interest of \$779,074 into 389,543 common shares of the Company's common stock.

On May 31, 2008, under the terms of a promissory note with a conversion agreement, Brightcap converted deferred compensation plus interest of \$754,414 into 290,160 common shares of the Company's common stock.

On May 31, 2008, under the terms of convertible promissory notes, holders of the notes converted principal plus interest of \$1,507,164 into 753,583 common shares of the Company's common stock.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

9. STOCKHOLDERS' EQUITY (CONTINUED):

In June 2008, the Company completed a private financing of 325,000 shares of

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common stock priced at \$2.00 per share. Net proceeds to the Company were \$630,000.

On June 15, 2008, under the terms of a convertible promissory note, Brightcap converted deferred compensation plus interest totaling \$350,805 into 175,403 common shares of the Company's common stock.

On June 30, 2008, Mr. Smith converted deferred compensation of \$179,280 into 89,640 common shares of the Company's common stock.

From November 2008 through March 2009, the Company issued 333,333 shares of the Company's restricted common stock at \$0.75 per share for cash proceeds of \$250,000.

In January 2009, pursuant to the Smith Agreement (Note 15), the Company issued 200,000 shares of the Company's restricted common stock at \$0.75 per share as prepayment of Mr. Smith's calendar year 2009 base compensation of \$150,000. The shares are forfeitable if services are not performed and fully vest through December 2009. Through June 30, 2009, the Company has recorded \$75,000 as compensation expense and \$75,000 remains to be expensed through December 2009. Also during January 2009, the Company issued 88,102 shares of the Company's restricted common stock at \$0.75 per share for deferred compensation owed Mr. Smith at December 31, 2008 of \$66,076.

From November 2008 through February 2009, the Company issued 21,334 shares of the Company's restricted common stock at \$0.75 per share for services valued at \$16,000 to two of its employees.

During January 2009 through June 2009, the Company issued 69,009 shares of the Company's restricted common stock ranging from \$0.75 to \$1.50 per shares for consulting services valued at \$86,370 to various consultants.

During June 2009, the Company issued 80,000 and 33,334 shares of the Company's restricted common stock at \$1.00 and \$1.50 per share, respectively, for cash proceeds of \$80,000 and \$50,000, respectively.

On June 30, 2009 the Company issued 69,692, 69,703 and 91,283 shares of the Company's restricted common stock to Mr. Zizza, Mr. Bassani and a major shareholder, respectively, under terms of convertible promissory notes of \$52,268, \$52,277 and \$68,462, respectively, at \$0.75 per share.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

9. STOCKHOLDERS' EQUITY (CONTINUED):

Warrants:

As of June 30, 2009, the Company had the following common stock warrants outstanding:

| | Number of Shares | Exercise Price | Expiration Date |
|----------------|------------------|----------------|-------------------|
| | ----- | ----- | ----- |
| Class SVDB 1-6 | 800,000 | \$3.00 | December 31, 2018 |

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| | | | |
|------------------|-----------|------|-------------------|
| Class DB-1 | 600,000 | 1.00 | December 31, 2018 |
| Class DB-1A | 1,000,000 | 0.75 | December 31, 2018 |
| Class A 1-3 | 600,000 | 2.50 | December 31, 2018 |
| Class SVMAS-1 | 67,500 | 3.50 | December 31, 2018 |
| Class SVMAS-1A | 40,000 | 3.50 | December 31, 2018 |
| Class SVMAS 2-3 | 72,500 | 2.50 | December 31, 2018 |
| Class SVB 1-4 | 125,000 | 2.50 | December 31, 2018 |
| Class SVC 1-5 | 125,000 | 4.25 | December 31, 2018 |
| Class SV-SEI 1-2 | 32,292 | 1.50 | December 31, 2012 |
| Class C,D,E | 275,000 | 2.50 | April 30, 2015 |
| Class O | 100,000 | 3.00 | December 31, 2018 |
| Class DM | 150,000 | 3.00 | December 31, 2011 |
| Class MAS | 80,000 | 2.50 | December 31, 2018 |
| Class MAS-1 A-K | 300,000 | 0.75 | December 31, 2018 |
| Class GK | 20,000 | 2.00 | March 31, 2011 |
| Class TO-1 | 15,000 | 0.75 | December 31, 2018 |
| Class BW | 10,000 | 2.20 | June 15, 2012 |
| Class Z 1-3 | 53,324 | 1.25 | December 31, 2018 |
| Class NCC-1 | 25,000 | 2.00 | May 31, 2014 |
| | ----- | | |
| | 4,490,616 | | |

The Company issued 20,000 Class GK warrants priced at \$0.25 per warrant to an individual during the year ended June 30, 2008 as a standby fee for a financing that the Company elected not to pursue, valued at \$5,000 which was expensed as general and administrative expense.

The Company issued 10,000 Class BW warrants priced at \$0.20 per warrant to a consultant during the year ended June 30, 2008 for services valued at \$2,000 which was expensed as general and administrative expense.

The Company issued 150,000 Class DM warrants priced at \$0.20 per warrant to a consultant pursuant to a three-year agreement in which 50,000 warrants vested on May 15, 2008, and 50,000 each on April 15, 2009 and 2010. The total value of the services for the warrants that vested in fiscal year 2008 was valued at \$10,000, of which \$1,250 was recorded as expense during the year ended

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 YEARS ENDED JUNE 30, 2009 AND 2008

9. STOCKHOLDERS' EQUITY (CONTINUED):

June 30, 2008 and \$8,750 was recorded as expense during the year ended June 30, 2009. The total value of the services for the warrants that vested in fiscal year 2009 was valued at \$10,000, of which \$2,083 was recorded as expense during the year ended June 30, 2009 and \$7,917 is recorded as a prepaid expense at June 30, 2009. The agreement also cancelled 387,343 Class SVDM-1 warrants with an exercise price of \$3.00 effective May 15, 2008.

The president of the Company purchased 80,000 warrants priced at \$0.20 per warrant on May 31, 2008.

During December 2008, 450,000 warrants were cancelled pursuant to the terms of the Zizza Agreement (see Note 15).

In January 2009, warrants to purchase 1,000,000 and 300,000 shares of the

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Company's common stock at \$0.75 per share were issued pursuant to various agreements with Mr. Bassani and Mr. Smith, respectively (Note 15). The warrants were determined to have a fair value of \$0.10 per warrant and expire on December 31, 2018. The value placed upon the warrants to purchase common stock at \$0.75 per share was determined to be \$0.10 per warrant based on factors including the evaluation of the Company's value as of the date of the issuances, consideration of the Company's limited liquid resources and business prospects, the market price of the Company's stock in its mostly inactive public market, the concurrent sales of restricted common stock at \$0.75 per share, and the historical valuation and purchases of the Company's warrants. Additionally, 2,000,000 and 610,000 warrants originally issued to Mr. Bassani and Mr. Smith, respectively, were extended to December 31, 2018. The Company recorded non-cash compensation of \$130,000 and \$32,500 related to the warrant issuances and extensions, respectively.

In January 2009, warrants to purchase 15,000 shares of the Company's common stock at \$0.75 per share were issued in consideration for the extension of the promissory note owed to a major shareholder of the Company (see Note 7). The warrants were valued at \$0.10 per warrant, as described above, and expire on December 31, 2018. The Company recorded non-cash compensation of \$1,500 related to the warrant issue.

In April 2009, warrants to purchase 36,000, 6,824 and 10,500 shares of the Company's common stock at \$1.25 per share were issued in consideration for the non-interest bearing loans payable - affiliates from Mr. Bassani, Mr. Smith and a major shareholder, respectively. The warrants were determined to have a fair value of \$0.10 per warrant, as described above, and expire on December 31, 2018. The Company recorded interest expense of \$5,332 related to the warrant issuances.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

9. STOCKHOLDERS' EQUITY (CONTINUED):

In June 2009, warrants to purchase 25,000 shares of the Company's common stock at \$2.00 per share were issued to a consultant. The warrants were determined to have a fair value of \$0.05 per warrant and expire on May 31, 2014. The value placed upon the warrants to purchase common stock at \$2.00 per share was determined to be \$0.05 per warrant based on factors including the evaluation of the Company's value as of the date of the issuances, consideration of the Company's limited liquid resources and business prospects, the market price of the Company's stock in its mostly inactive public market, the concurrent sales of restricted common stock at \$1.00 per share, and the historical valuation and purchases of the Company's warrants. The Company recorded general and administrative expense of \$1,250 related to the warrant issue.

During the year ended June 30, 2009, 9,375 warrants with an exercise price of \$1.50 expired.

The weighted average exercise price for the outstanding warrants is \$1.95, and the weighted average remaining contractual life as of June 30, 2009 is 8.9 years.

Stock options:

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Effective June 2006, the Company approved the 2006 Consolidated Incentive Plan (the "2006 Plan"), which consolidated previous incentive stock options plans into the 2006 Plan. On November 28, 2008, the 2006 Plan was amended to increase the maximum number of shares of the common stock of the Company issuable pursuant to the 2006 Plan from 4,200,000 to 6,000,000 shares. Terms of exercise and expiration of options granted under the 2006 Plan may be established at the discretion of the Board of Directors, but no option may be exercisable for more than ten years.

In May and June of 2008, the Board of Directors, in an effort to retain key employees and consultants, approved the modifications of certain options to certain employees and consultants. The modifications included the reduction of the exercise price of certain options below the fair market value on the date of grant, modifications to the vesting terms and extension of the expiry dates. As a result of the modifications, pursuant to SFAS 123(R), the Company recorded incremental compensation expense of \$83,428, which was recognized at June 30, 2008 and approximately \$282,000 of additional compensation will be recognized over a weighted average period of approximately 2 years.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

9. STOCKHOLDERS' EQUITY (CONTINUED):

The Company recorded compensation expense related to employee stock options of \$262,092 and \$679,151 for the years ended June 30, 2009 and 2008, respectively. The fair value of the options granted during the years ended June 30, 2009 and 2008 were estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

| | Weighted average June 30, 2009 | Range June 30, 2009 | Weighted average June 30, 2008 | Range June 30, 2008 |
|-------------------------|---|---------------------------|---|---------------------------|
| Volatility | 99% | 72%-151% | 65% | 54%-71% |
| Dividend yield | 0% | 0% | 0% | 0% |
| Risk-free interest rate | 1.97% | 1.63%-2.64% | 3.11% | 2.66%-3.61% |
| Expected term (years) | 4 | 3-6 | 2.7 | 2.7 |

The expected volatility was based on the historical price volatility of the Company's common stock. The dividend yield represents the Company's anticipated cash dividend on common stock over the expected term of the stock options. The U.S. Treasury bill rate for the expected term of the stock options was utilized to determine the risk-free interest rate. The expected term of stock options represents the period of time the stock options granted are expected to be outstanding based upon management's estimates.

A summary of option activity under the 2006 Plan for the two years ended June 30, 2009 is as follows:

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 YEARS ENDED JUNE 30, 2009 AND 2008

9. STOCKHOLDERS' EQUITY (CONTINUED):

| | Options | Weighted- Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|------------------------------|-----------|---|---|---------------------------------|
| Outstanding at July 1, 2007 | 1,833,333 | \$ 3.33 | 4.8 | \$ 611,458 |
| Granted | 410,000 | 2.57 | | |
| Exercised | - | - | | |
| Forfeited | (25,000) | 5.50 | | |
| Expired | (35,000) | 5.14 | | |
| Outstanding at June 30, 2008 | 2,183,333 | 3.06 | 4.6 | 7,950 |
| Granted | 75,000 | 1.00 | | |
| Exercised | - | - | | |
| Forfeited | - | - | | |
| Expired | (262,500) | 2.83 | | |
| Outstanding at June 30, 2009 | 1,995,833 | \$ 3.01 | 4.3 | \$ - |
| Exercisable at June 30, 2009 | 1,792,084 | \$ 3.00 | 4.3 | \$ - |

The following table presents information relating to nonvested stock options as of June 30, 2009:

| | Shares | Weighted Average Grant-Date Fair Value |
|----------------------------|-----------|---|
| Nonvested at July 1, 2008 | 562,916 | \$ 1.29 |
| Granted | 75,000 | 0.44 |
| Vested | (434,167) | (1.13) |
| Forfeited | - | - |
| Nonvested at June 30, 2009 | 203,749 | \$ 1.31 |

The total fair value of stock options that vested during the year ended June

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30, 2009 and 2008 was \$491,877 and \$584,955, respectively. As of June 30, 2009, the Company had \$174,684 of unrecognized compensation cost related to stock options that will be recorded over a weighted average period of one year.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2009 AND 2008

9. STOCKHOLDERS' EQUITY (CONTINUED):

The Company has issued options to non-employees to purchase shares of the Company's common stock in exchange for services. As of June 30, 2009, non-employee options represented 595,833 of the 1,995,833 options outstanding under the 2006 Plan. Of the 595,833 non-employee options outstanding, 92,500 were fully vested and contained no service conditions as of June 30, 2009. These non-employee options were valued using the Black-Scholes option-pricing model. The fully vested options have been fully amortized on the straight-line method and resulted in expense of \$104,205 being recorded for the year ended June 30, 2008.

The remaining 503,333 non-employee options outstanding include service conditions and have graded vesting schedules through November 30, 2009. As of June 30, 2009, 450,000 of these options included service conditions that were fully vested. Generally for these agreements, the measurement date of the services occurs when the options vest. In accordance with EITF No. 96-18, recognition of compensation cost for reporting periods prior to the measurement date is based on the then current fair value of the options as of each of the interim reporting dates. Any subsequent change in fair value is recorded on the measurement date. The fair value of these options was determined using the Black-Scholes option-pricing model using the following assumptions at June 30, 2009; a dividend yield of zero, risk-free interest rates of 3.53%, volatility of 158%, and an expected life of 9 years. Consulting cost in connection with options that are not fully vested as of June 30, 2009, is being recognized on a straight-line basis over the requisite service period for the entire award. Non-cash fair value credits of \$118,939 and \$38,788 were recorded as a reduction of expense during the years ended June 30, 2009 and 2008, respectively.

Stock-based compensation charges/(credits) in operating expenses in the Company's financial statements for the years ended June 30, 2009 and 2008 are as follows:

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 YEARS ENDED JUNE 30, 2009 AND 2008

9. STOCKHOLDERS' EQUITY (CONTINUED):

| | Year Ended June 30, 2009 | Year Ended June 30, 2008 |
|---|-----------------------------|-----------------------------|
| | ----- | |
| General and administrative: | | |
| Fair value remeasurement of convertible notes - affiliates | \$ - | \$ (237,383) |
| Fair value and amortization of expenses prepaid with stock options granted to non-employees | - | 69,828 |
| Fair value remeasurement of options with service conditions | (184,400) | (19,394) |
| Fair value of stock options expensed under SFAS 123(R) | 209,262 | 519,751 |
| | ----- | |
| Total | \$ 24,862 | \$ 332,802 |
| | ===== | |
| Research and development: | | |
| Fair value remeasurement of convertible notes - affiliates | \$ - | \$ (323,387) |
| Fair value and amortization of expenses prepaid with stock options granted to non-employees | - | 34,377 |
| Fair value remeasurement of options with service conditions | 65,461 | (19,394) |
| Fair value of stock options expensed under SFAS 123(R) | 52,830 | 159,401 |
| | ----- | |
| Total | \$ 118,291 | \$ (149,003) |
| | ===== | |

10. LITIGATION SETTLEMENT AND RETURN OF ESCROWED FUNDS:

The Company, its president and Dairy were defendants in a class action/derivative action lawsuit in Delaware Chancery Court (TCMP#3 Partners, LLP, et al v. Trident Rowan Group, Inc., et al, Civil Action No. 170-N) (the "TCMP Litigation"). On August 10, 2007 a settlement was approved. As part of the settlement reached in the TCMP Litigation, the Company, Centerpoint and certain shareholders of the Company (the "Shareholder Class") filed an action against Comtech Group, Inc. ("Comtech") (formerly known as Trident Rowan Group, Inc.), OAM S.p.A ("OAM") and others in the Court of Chancery in the State of Delaware (the "Comtech Litigation"), along with a stipulated settlement of the Comtech Litigation. Pursuant to that settlement, Comtech and OAM agreed to deliver to the Shareholder Class: a) 144,240 shares of the

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YEARS ENDED JUNE 30, 2009 AND 2008

10. LITIGATION SETTLEMENT AND RETURN OF ESCROWED FUNDS (CONTINUED):

Company's common stock; b) a warrant to purchase 100,000 shares of the Company's common stock, and c) 140,000 shares of the common stock of Centerpoint. The delivery of these securities (net of 10% attorneys' fees) occurred in April 2008 and each member of the Shareholder Class received the equivalent of approximately .05 of the Company's shares for each share of the Company's common shares (split adjusted) owned on January 15, 2002. Centerpoint, being a member of the Shareholder Class, received 10,510 shares of the Company's common shares pursuant to the settlement, which the Company accounts for similar to treasury stock. Also, on April 30, 2008 Centerpoint received and cancelled 126,000 shares of its previously outstanding common stock which increased Bion's ownership in its subsidiary from 57.7% to 58.9%. Additionally, Comtech and OAM assigned to the Company all of their rights to the proceeds of an escrow established from the sale of Centerpoint's assets to Aprilia S.p.A. (the "Aprilia Escrow") and any proceeds from litigation related to the transaction with Aprilia. On September 18, 2007 the Company received gross proceeds of \$798,210 (net receipts were \$159,642 to Centerpoint and \$558,747 to Bion, after payment of attorneys' fees of \$79,821) from the Aprilia Escrow. As part of the settlement, one of the other defendants in the Comtech litigation paid \$150,000 into a settlement fund, through insurance, from which the Company and Centerpoint received \$110,000, in aggregate, on September 10, 2007. Pursuant to the settlement of the TCMF Litigation, \$165,000 was paid into the settlement fund through insurance on behalf of the Company, its president and Dairy. As there are no contingencies on the settlement, the Company recognized the net proceeds of \$828,389 as other income for the year ended June 30, 2008.

Also on September 18, 2007, Centerpoint received \$429,806 from its direct 35% ownership interest in the Aprilia Escrow which is included in other income for the year ended June 30, 2008.

11. EXTINGUISHMENT OF LIABILITIES:

During the years ended June 30, 2009 and 2008, the Company recognized other income due to the extinguishment of liabilities of \$1,826 and \$126,712, respectively, resulting from the derecognition of certain accounts payable. These accounts payable, which related to business activities of the Company discontinued during the 2003 and 2004 fiscal years, were outstanding for 2-6 years and the vendors had made no attempts to collect these amounts from the Company over the past several years. The extinguishment of liabilities was recorded after a review of the statute of limitations in the various states in which the original liability was incurred.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

12. INCOME TAXES:

The reconciliation between the expected federal income tax benefit computed by applying the Federal statutory rate to loss before income taxes and the

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actual benefit for taxes on loss for the years ended June 30, 2009 and 2008 are as follows:

| | 2009 | 2008 |
|---|-------------|-------------|
| Expected income tax benefit at statutory rate | \$(486,000) | \$(660,000) |
| Permanent differences | 4,000 | (103,000) |
| Change in valuation allowance | 482,000 | 763,000 |
| Income tax benefit | \$ - | \$ - |

The Company has net operating loss carry-forwards ("NOLs") for tax purposes of approximately \$37,775,000 as of June 30, 2009. These NOLs expire on various dates through 2029.

The utilization of the NOLs may be limited under Section 382 of the Internal Revenue Code.

The Company's deferred tax assets for the years ended June 30, 2009 and 2008, are estimated as follows:

| | 2009 | 2008 |
|------------------------------------|---------------|---------------|
| NOLs - noncurrent | \$ 14,355,000 | \$ 14,272,000 |
| Stock-based compensation - current | 183,000 | 290,000 |
| Deferred compensation - noncurrent | 291,000 | 1,279,000 |
| | 14,829,000 | 15,841,000 |
| Valuation allowance | (14,829,000) | (15,841,000) |
| Net deferred tax assets | \$ - | \$ - |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company has provided a valuation allowance of 100% of its net deferred tax asset due to the uncertainty of generating future profits that would allow for the realization of such deferred tax assets.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 YEARS ENDED JUNE 30, 2009 AND 2008

13. OPERATING LEASE:

The Company entered into a non-cancellable operating lease commitment for office space in New York, effective August 1, 2006 and expiring November 30, 2013. In conjunction with the signing of the lease, the Company provided the lessor with a secured letter of credit. As of June 30, 2009, the Company has reflected \$85,973 as restricted cash related to the secured letter of credit. The Company's obligations under the lease are partially guaranteed by Mr. Zizza. The Company has entered into two separate agreements to sub-lease approximately 32% of the Company's lease obligation and the tenants have also agreed to reimburse the Company for leasehold improvements and furnishings.

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Because the lease contains an escalation clause, the Company is recognizing rent under the straight-line method resulting in an average monthly rent expense of \$15,820. The Company is also recognizing the sub-lease rental income from its tenants under the straight-line method, with a monthly average of \$5,250. The difference between the straight-line method, and the actual lease payments have resulted in a deferred rent liability of \$73,232 as of June 30, 2009. Rent expense, net of contractual and month to month sub-lease rental income was \$33,083 and \$78,777 for the years ended June 30, 2009 and 2008, respectively.

At June 30, 2009, future minimum rental payments due under non-cancelable leases and future minimum rental payments to be received under non-cancelable subleases are:

| Fiscal year: | Operating lease payments | Sublease rentals | Net operating lease payments |
|--------------|-----------------------------|---------------------|---------------------------------|
| ----- | ----- | ----- | ----- |
| 2010 | \$ 191,405 | \$ 61,249 | \$ 130,156 |
| 2011 | 198,602 | 63,553 | 135,049 |
| 2012 | 212,775 | 68,088 | 144,687 |
| 2013 | 225,756 | 72,242 | 153,514 |
| Thereafter | 97,219 | 31,110 | 66,109 |
| | ----- | ----- | ----- |
| Total | \$ 925,757 | \$ 296,242 | \$ 629,515 |
| | ===== | ===== | ===== |

Effective January 1, 2009, Mr. Zizza entered into a Master Sublease with the Company pursuant to which Mr. Zizza became a sublessee and will, for a one year initial period, make all payments pursuant to the lease and manage the lease premises. Rental payments from existing sub-tenants are being deposited into a Company bank account such that Mr. Zizza utilizes those funds towards the monthly lease payment. Mr. Zizza will have the option on or before November 15, 2009, at his sole election, to continue the Master Sublease for the entire term of the lease. If Mr. Zizza fulfills his

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

13. OPERATING LEASE (CONTINUED):

obligations under the Master Sublease during the one year initial period, he shall receive the funds from the next release of the restricted cash securing the Company's letter of credit approximating \$28,000. If Mr. Zizza exercises the option to continue the Master Sublease for the entire term of the lease, Mr. Zizza will be entitled to the balance of restricted funds securing the letter of credit.

14. 401(k) PLAN:

Effective December 1, 2001, the Company adopted the Bion Technologies, Inc. 401(k) Profit Sharing Plan and Trust (the "401(k) Plan"), a defined contribution retirement plan for the benefit of its employees. The 401(k) Plan is currently a salary deferral only plan and at this time the Company does not match employee contributions. The 401(k) is open to all employees over 21 years of age and no service requirement is necessary.

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15. COMMITMENTS AND CONTINGENCIES:

Employment and consulting agreements:

The Company had an employment agreement with its president, Mr. Smith, through December 31, 2007 providing \$150,000 per year compensation. On November 7, 2007, the Company extended the employment agreement through December 31, 2008. On May 31, 2008, an agreement was reached whereby Mr. Smith would continue his services as president through December 31, 2008 and effective January 1, 2009 (or March 31, 2009 at the latest) through December 31, 2009, he would provide services to the Company in a consulting capacity at his current compensation. On January 11, 2009, the Company and Mr. Smith entered into the Smith Agreement whereby Mr. Smith will continue to hold positions of Director, President and General Counsel of the Company and its subsidiaries. Pursuant to the Smith Agreement, Mr. Smith was granted a \$37,500 bonus in the form of a warrant (and extension of outstanding warrants previously issued to Mr. Smith), immediately vested, to purchase 300,000 shares of the Company's common stock at \$0.75 per share until December 31, 2018 and Mr. Smith agreed to accept pre-payment of his calendar year 2009 base compensation of \$150,000 in the form of 200,000 restricted shares of Company common stock at a price of \$0.75 per share. In addition, Mr. Smith converted his deferred compensation as of December 31, 2008 into shares of the Company's common stock.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

15. COMMITMENTS AND CONTINGENCIES (CONTINUED):

Effective March 31, 2005, an agreement with Brightcap, through which the services of Dominic Bassani are provided, was extended through March 31, 2009. Under the terms of the agreement, Brightcap will be paid \$300,000 annually for Mr. Bassani's services. On January 11, 2009, the Company entered into the Brightcap Agreement, which extends Mr. Bassani's services under the terms of the March 31, 2005 agreement for up to an additional six months. In addition, Mr. Bassani was granted a bonus of \$125,000 in the form of a) warrant, immediately vested, to purchase 1,000,000 shares of the Company's common stock at \$0.75 per share until December 31, 2018 and b) the extension of all warrants previously issued to either Brightcap or Mr. Bassani, now held by their donees, to December 31, 2018. The Brightcap Agreement also required that upon the consummation of the next financing received by the Company in excess of \$1,000,000 net proceeds, the Company will no longer defer compensation earned by Brightcap, rather it will be paid in cash. Since July 2009, Brightcap has been paid in cash. The Brightcap Agreement grants Brightcap the right to convert its existing deferred compensation as of December 31, 2008 of \$175,000 into 233,334 shares of the Company's common stock at a price of \$0.75 per share until December 31, 2009. The Brightcap Agreement also extended the maturity date of Mr. Bassani's \$50,000 promissory note to June 30, 2009 and allows for the conversion of the principal and interest, in whole or in part, at the election of Mr. Bassani,

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into the Company's restricted common shares at \$0.75 per share. The promissory note was converted on June 30, 2009.

Effective May 1, 2005, the Company entered into a four-year consulting/employment agreement with a former officer and director of the Company, Salvatore Zizza. As of January 1, 2006, the former officer and director assumed the position of Chairman and director of Bion Dairy Corporation (now Projects Group), with an annual salary of \$300,000. Pursuant to an agreement dated December 19, 2008, Mr. Zizza no longer provides services to the Company as of December 31, 2008 and the following terms were agreed upon (and subsequently effected): a) Mr. Zizza's 600,000 warrants were returned to the Company and the Company reissued a certificate to Mr. Zizza representing 150,000 warrants with no changes in the terms and conditions of the original warrants, b) all options owned by Mr. Zizza shall vest on the existing schedule, c) the Company canceled the 2007 Series AB Convertible Promissory Note owned by Mr. Zizza which represented accrued deferred compensation from the Company (see Note 5), d) the \$50,000 promissory note owed to Mr. Zizza remained outstanding and was amended to include the right of Mr. Zizza to convert the principal and interest, in whole or part, into the Company's common stock at a price of \$0.75 per share at any date prior to the repayment of the Company, e) the Company's existing

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2009 AND 2008

15. COMMITMENTS AND CONTINGENCIES (CONTINUED):

accrued payable of \$41,647 to Mr. Zizza remains a valid obligation of the Company with the additional right of Mr. Zizza to convert the accrued payable, in whole or in part, into the Company's restricted common stock at a price of \$0.75 per share (see Note 16) and f) the Company entered into a Master Sublease (Note 13).

Effective September 18, 2006, the Company entered into a four-year employment agreement with Jeremy Rowland whereby Mr. Rowland assumed the position of Chief Operating Officer of Dairy at an annual salary of \$150,000. In June 2008, the employment agreement terms were extended through July 1, 2012. Mr. Rowland now serves as Chief Operating Officer of the Company's Services Group subsidiary.

The Company approved an employment agreement contract extension effective June 30, 2009, with Craig Scott whereby Mr. Scott will continue to act as Vice President of Capital Markets and Shareholder Relations through December 31, 2010, at an annual salary of \$144,000. The Company will have the right terminate the agreement with 30 days notice commencing December 2009 with no further liability.

In May 2005 the Company declared contingent deferred stock bonuses of 690,000 shares to its key employees and consultants. The stock bonuses of 492,500 and 197,500 shares are contingent upon the Company's stock price exceeding \$10.00 and \$20.00 per share, respectively, and the grantees still being employed by or providing services to the Company at the time the target

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prices are reached. As of June 30, 2009, 422,500 shares remain outstanding due to the expiry of 125,000 and 62,500 shares to be issued when and if the Company's stock price exceeds \$10.00 and \$20.00 per share, respectively.

In May 2008, the Company approved 250,000 stock options to certain employees that will be granted upon the execution of new employment agreements.

Claims contingency:

In May 2002, Arab Commerce Bank Ltd. ("ACB"), an unaffiliated party, filed a complaint against the Company in the Supreme Court of the State of New York regarding \$100,000 of the Company's convertible bridge notes ("Bridge Notes") that were issued to ACB in March 2000. The complaint includes a breach of contract claim asserting that the Company owes ACB approximately \$285,000 plus interest of \$121,028 plus interest based on ACB's interpretation of the terms of the Bridge Notes and subsequent amendments. Effective June 30, 2001, the Company issued ACB 5,034 shares of common stock in full satisfaction of the Bridge Notes based on the Company's interpretation of the Bridge Notes, as amended. The Company has filed an answer to the complaint denying the allegations. No activity has taken place on this lawsuit since

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED JUNE 30, 2009 AND 2008

15. COMMITMENTS AND CONTINGENCIES (CONTINUED):

early 2003. The Company believes that the ultimate resolution of this litigation will not have a material adverse effect on the Company, its operations or its financial condition.

16. RELATED PARTY TRANSACTIONS:

The Company has an accrued payable of \$41,647 as of June 30, 2009, to a company controlled by Mr. Zizza for rental of office space in 2003. The amount is unsecured and non-interest bearing. Pursuant to the Zizza Agreement, Mr. Zizza has the option to convert the payable into common shares of the Company's stock at \$0.75 per share at any time prior to the obligation being paid by the Company.

17. SUBSEQUENT EVENTS:

The Company has evaluated events through September 23, 2009 for consideration as a subsequent event to be included in its June 30, 2009 financial statements issued September 23, 2009.

Issuance of Series B Preferred Stock

As discussed in Note 9 during July 2009, the Company completed an offering of the Company's Series B Preferred shares, which as of June 30, 2009 resulted in the issuance of 21,320 shares at \$100 per share resulting in net proceeds to the Company of \$1,854,840. Subsequent to June 30, 2009, the Company issued an additional 6,850 shares of Series B Preferred stock, resulting in net proceeds to the Company of \$595,950.

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Issuance of Common Stock

During July 2009, the Company issued 130,000 common shares to employees as bonus shares, under the 2006 Plan, valued at approximately \$131,300. The Company has also issued 52,774 common shares to consultants for services valued at approximately \$78,000.

During September 2009, the Company issued 55,530 shares of common, at Mr. Zizza's election, in conversion and satisfaction of the accrued payable of \$41,647 described in Note 16.

Issuance of Options

In July 2009, the board of directors granted 75,000 options that vested on July 1, 2009 with an exercise price of \$1.25 per option and expire on July 1, 2014. The board also approved the granting of 100,000 options with an exercise price of \$1.25 per option and expiry date of July 1, 2014 that vest over a 18 month period.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amended Report to be signed on its behalf by the undersigned thereunder duly authorized.

BION ENVIRONMENTAL TECHNOLOGIES, INC.

Dated: November 12, 2009

By: /s/ Mark A. Smith
Mark A. Smith, President (Chief Executive Officer) and Interim Chief Financial Officer (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Amended Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

| SIGNATURE | TITLE | DATE |
|------------------------------------|--|-------------------|
| /s/ Mark A. Smith Mark A. Smith | President, General Counsel, Interim Chief Financial Officer and Director | November 12, 2009 |
| /s/ Jon Northrop Jon Northrop | Secretary and Director | November 12, 2009 |