

Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

BION ENVIRONMENTAL TECHNOLOGIES INC

Form 10-K

September 21, 2010

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

FORM 10-K

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

For the Fiscal Year ended: June 30, 2010

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 Identification 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:

Title of Each Class Name of Each Exchange on Which Registered
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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [ X ] YES [ ] NO

Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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. [ X ]

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	[ X ]

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

The aggregate market value of the approximately 6,500,000 shares of voting stock held by non-affiliates of the Registrant as of December 31, 2009 approximated \$13.9 million. As of September 17, 2010, the Registrant had 12,807,281 shares of common stock issued and 12,102,972 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (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.

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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

- \* changes in political, legal, regulatory and economic climates;
- \* changes in the public's perceptions of large scale livestock agriculture/CAFOs, environmental protection and other related issues;
- \* 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 the development and operation of Integrated Projects and retrofit/remediation of existing livestock facilities;
- \* engineering, mechanical or technological difficulties with operational equipment including potential mechanical failure or under-performance of 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 limited 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;
- \* seasonal and climatic conditions;
- \* availability and cost of material and equipment;
- \* delays in anticipated permit approval and/or 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 recent recession and its affects 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.

3

### 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, a CAFO (existing or to be developed) can potentially increase its herd concentration while lowering or maintaining its level of nutrient releases and atmospheric emissions.

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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/renewable energy facilities integrated with related agriculture activities such as food processing and biofuels production in Integrated Projects (as defined below). Services Group will also provide its services and utilize its personnel to support the activities of Projects Group.

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 on 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 Project(s)" or "Project(s)"). In the context of Integrated Projects, Bion's waste treatment technology, in addition to mitigating polluting releases to water and emissions to air, will generate cellulosic biomass from portions of the CAFO waste stream from which renewable energy can be produced to 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 and/or processing facilities in the context of beef CAFOs) and/or other users as a replacement for fossil fuel energy or sold to unrelated purchasers. 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

4

usage of the ethanol production process. Thus, integrated ethanol plants will act as a feed mill for the CAFO, thereby reducing the CAFO's feeding costs and both lowering costs and generating revenue to the ethanol plant(s), and also provide a market for the renewable energy from the cellulosic biomass that Bion's System (defined below) modules produce from the CAFO waste stream. As such, Bion Integrated Projects can be denominated "closed loop". Bion, as developer of, and a participant in, its Integrated Projects, anticipates that it will share in the cost savings and revenue generated from these (and other) benefits of integrated 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. During mid-2008, with the substantial

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

completion of the technology/business model re-development process, Bion commenced simultaneous pursuit of 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 now 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 retrofit/remediation opportunity is being pursued primarily through our Services Group subsidiary which will also provide design, engineering and construction and project management services to 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' subsidiaries. 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, 2010 and 2009 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, 2010 or June 30, 2009. The Company has incurred net losses of approximately \$2,976,000 and \$1,318,000 during the years ended June 30, 2010 and 2009, respectively. The Company had a working capital surplus and stockholders' deficit, respectively, of approximately \$381,000 and \$1,535,000 as of June 30, 2010. 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, 2010 and June 30, 2009 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.

5

### 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 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 large livestock operations - of which there are many and potentially to smaller facilities through aggregation of waste streams. 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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 recovering cellulosic biomass to be utilized for renewable energy production (and possibly solids 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 40 million to 100 (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) with waste treatment modules 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 cellulosic biomass recovered from the waste streams and on-site energy utilization in a 'closed loop' manner that will reduce 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.

6

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 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 that we will option land in Oswego County, New York and move into the development process during the current fiscal year. In addition to the upstate New York beef cattle project, Bion has been working with various local and state agencies in Nebraska regarding potential development of a large scale integrated dairy/cheese Integrated Project (which would be integrated with one or more existing ethanol plant(s)). The Company has also begun discussions with various state and regional agencies in Pennsylvania regarding a large scale beef Integrated Project. These projects are in very early pre-development stages and may never progress to actual development or may be developed after other projects not yet under active consideration.

Bion is currently working with local, state and federal officials and/or 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 current fiscal year by optioning land and beginning the permitting process.

In addition, Bion intends to choose sites for additional Projects through fiscal years 2011-12 to create a pipeline of Projects. Management has

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

a 5-year development target (through fiscal year 2016) of approximately 12-24 Integrated Projects. At the end of the 5-year period, Bion projects that 5-12 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; and 2) Mark A. Smith serves as President of Projects Group supervising the activities of Services Group personnel in this area and Dominic Bassani, our Director-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 (see 'Forward-Looking Statements' above) including without limitation the following, none 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

7

- \* Our ability to raise sufficient funds to allow us to finance our activities; and
- \* Regulatory and enforcement policies at the Federal, State and local levels.

### 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 (including re-deposition of nitrogen from ammonia off-gassing) 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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 both economically and environmentally sustainable because the technology removes nutrients from the waste streams generated by animal operations at the source while dramatically reducing atmospheric emissions. The resulting herd concentration potentially creates reduced marginal costs for the CAFOs. More importantly, it results in a core Bion technology platform that integrates environmental treatment and renewable energy production and utilization with ethanol production thereby creating the Company's Integrated Projects business opportunity.

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 herd and technologies to

8

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 cellulosic biomass recovered from the livestock waste streams combined with utilization of the energy produced within the Integrated Projects;
- \* Ethanol production cost savings; and
- \* Various "environmental" credits.

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 renewable energy to the ethanol plant and/or other facilities, c) fees related to the utilization of the wet distillers grain made possible by the integration, d) fees for its "developer" role, and/or e) sales of the fertilizer and/or other products generated from the waste treatment process. 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 the ownership and/or operation of the integrated CAFO (and its facilities), we will also 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



## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

of an Integrated Project.

We believe that our technology platform and the proposed Projects do not involve significant technology risk. Our waste handling technology is modular and scalable, 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/gasification 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:

9

**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 its transportation costs and carbon footprint and the processing plant can purchase and utilize the renewable energy Bion produces from the cellulosic biomass recovered by Bion 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 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 3.5-5 to 1 range (based on the Argonne National Laboratories GREET model assessment of a similar integrated, closed-loop project) -- similar to the efficiency targets publicly discussed for future cellulosic ethanol production--and thereby greatly reduce the carbon footprint.

**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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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.

10

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 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/gasifying the recovered cellulosic biomass 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 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 produces renewable energy and other products from the waste stream, c) the CAFO agrees to purchase and utilize the wet distillers grain by-product of the ethanol plant in its feed ration

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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

11

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 the 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 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), Bion PA 1 LLC (a Colorado entity organized August 14, 2008) and Bion PA 2 LLC (a Colorado entity organized June 24, 2010). 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 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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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.

12

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](http://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 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 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 cellulosic solids/biomass 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 2005-2008, 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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

and environmental remediation of existing CAFOs and 2) development of Integrated Projects as described above.

13

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 with President Obama's 2009 Executive Order concerning clean-up of the Chesapeake Bay and the appointment of Chuck Fox by EPA Secretary Lisa Jackson to act as a "czar" for CB cleanup efforts. In May 2010, EPA published their overall strategy for remediating the Chesapeake Bay, and they have committed to reducing nitrogen and phosphorus flows to the Bay sufficiently to enable 60% of the Bay watershed segments to meet water quality standards by 2025. Today, 89 of the 92 Bay and tidal watershed segments are not in compliance with water quality standards (97% out of compliance). EPA and associated state agencies have also committed to short term 2 year compliance milestones to enhance accountability and corrective actions, along with a host of definable and measurable goals, enhanced partnerships, and major environmental initiatives. Prior EPA documents defined the overall mission as requiring an approximately 140 million pound annual reduction from existing nitrogen (N) loading to the Chesapeake Bay (an approximately 44% reduction from 315 million pounds of N per year to 175 million pounds of N per year) by 2025 and the Company believes that in order to meet the current goals the reduction will need to be that large (or larger) within that time period (or a shorter period). Importantly, the timetable for compliance appears to have been shortened which will likely require significantly greater annual N reductions in earlier years for Pennsylvania, Maryland and Virginia. As a result, Bion believes that its long term opportunity related to the Chesapeake Bay clean-up has potentially been significantly expanded and accelerated.

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 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.

14

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 (with Phase 2 being the integration of the treatment system with Kreider's poultry manure and the development of a renewable energy production facility). During April 2010, the PADEP issued an amended certification. The DEP's approval enables 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 107 nitrogen and 13 phosphorus credits (each credit represents an annual pound of reduction) for each of the 1,200 dairy cows (subject to testing and verification after operations have been stabilized).

During August 2010, Bion PA 1, LLC received a permit from the PADEP to authorize the construction of the Bion Nutrient Management Facility ('System') at Kreider Dairy Farm. Design and engineering work is underway and the Company will soon commence pre-construction activities including ordering of equipment for the System and execution of various related agreements. It is anticipated that construction will commence on the System in the next 45 days and that the System will become operational by Spring 2011.

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 Kreider Nutrient Management Facility at Kreider Dairy Farm ('Kreider System') of Bion's Kreider Farms projects ('Pennvest Loan'). The Pennvest Loan is structured in phases (pre- and post-completion of design/construction bids) 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 initial settlement/closing of the Pennvest Loan will take place within 30-45 days and that Bion will submit its initial request for drawdown/reimbursement to Pennvest shortly thereafter. It is anticipated that the initial drawdown/re-imburement from Pennvest pursuant to the Pennvest Loan will be received within approximately 60-90 days.

Bion's agreements with Kreider Farms provide 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 4.6 million chickens and construct a renewable energy production facility that will generate renewable energy through the combustion/gasification of the poultry wastes and the cellulosic biomass captured by Bion in the Phase 1 System ('Kreider Renewable Energy Facility'). This opportunity will be pursued through Bion PA 2, LLC. During August 2010 the Company filed its application for nutrient credits with the PADEP related to the Kreider Renewable Energy Facility. Bion will work with the PADEP to finalize credit protocols related to the Kreider Renewable Energy Facility which will generate renewable energy from the dairy solids/biomass produced in the Kreider Phase 1 System and poultry waste from Kreider's poultry operations (and possibly other poultry

operations in the region). The review process to clarify certain issues is

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 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 1.0-1.5 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 Pennsylvania State Senate estimates that capital costs of \$1.4 billion plus \$60 million annual operating costs (which yields an amortized average cost of approximately \$28 per lb nitrogen reduction per year) will be required to upgrade the municipal wastewater treatment plants in Pennsylvania to meet the initial standards then in place to meet programmatic mandates set by the Chesapeake Bay Program (which mandates appear to have been increased and accelerated). 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 \$1.4 billion capital cost required for wastewater treatment plant nitrogen reduction upgrades, if Bion's technology were utilized to offset all of the required nitrogen 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 concentrated livestock manure waste stream and the cost required for reduction of nutrients from diluted conventional waste water and storm 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 total in excess of 75 million (or more) pounds annually (including airborne ammonia) over the next decade 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 in the Great Lakes and 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 are 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 subsidiaries/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:

- \* locate, secure and develop appropriate sites;
- \* negotiate agreements with both input providers and, in certain instances, end-product users;
- \* secure required permits and other approvals 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 in the Projects for a fee while producing renewable energy for on-site use (including sale to the integrated biofuel and/or end product facilities) and/or third party sale, 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 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 final 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 upstate New York 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 and an ethanol plant (existing or newly constructed) integrated with the herd. Bion anticipates that renewable energy produced from the cellulosic biomass that Bion's technology recovers from the livestock waste stream will replace most (if not all) of the fossil fuel



## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 (or more) 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.

In addition to the NYS beef cattle Project described above, Bion has been working with various local and state agencies in Nebraska, Pennsylvania and elsewhere to develop a large scale integrated beef and/or dairy/cheese Integrated Projects that would require capital expense estimated to be in the range of \$120 million to in excess of \$750 million and would potentially generate 300 or more jobs for beef-based projects and 700 to 850 full time permanent jobs for dairy/cheese based projects. A dairy/cheese-based Project would integrate multiple, 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 has been involved in discussions regarding such a dairy/cheese project with Nebraska state development officials, as well as a large cheese producer/distributor and major dairy industry participants. Additionally, Bion has been involved in discussions related to a beef-based Project with Pennsylvania state development officials. Note that these Projects have not yet emerged from the early pre-development phase, no land or permits for either of these Projects has been acquired and Bion has no commitments from anyone related to financing or participation in such Projects and that no such Project has yet been developed by Bion (or others). These projects are in very 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.

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 basic commodity businesses such as food products and

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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

#### 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 ('Series B Preferred Shares') and received net proceeds of approximately \$2,450,000 after commissions and offering expenses. The Company sold 21,320 Series B Preferred Shares through June 30, 2009 for net proceeds of approximately \$1,854,840 with the balance sold thereafter. The Series B 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.

#### SERIES C CONVERTIBLE PREFERRED STOCK (2010)

During April 2010 the Company concluded a private offering in which we sold 15,400 shares of its Series C Convertible Preferred Shares ('Series C Preferred Shares') and received net proceeds of approximately \$1,339,800 after commissions and offering expenses. The Company sold 2,600 Series C Preferred Shares through June 30, 2010 in a second offering for net proceeds of approximately \$226,200. Through final closing on September 17, 2010 an additional 4,800 shares of Series C Preferred Stock were sold for net proceeds of approximately \$417,600 for total net proceeds of approximately \$643,800 from the sale of 7,400 shares of Series C Preferred Stock in the second offering. The Company has 22,800 shares of Series C Preferred Stock outstanding as of this date. The Series C Preferred Shares pay a dividend of 2.5% per quarter (pro-rated), are convertible into our common shares at \$4.00 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 Series C 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 and 2010 FISCAL YEARS

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

19

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.

During the fiscal year ended June 30, 2010 the Company sold 8,769 shares, in aggregate, of its restricted common stock for \$13,153 of cash (net proceeds). Additionally the Company issued 306,990 shares of its restricted common stock, in aggregate, for \$511,527 of services. The Company also issued 315,449 shares, in aggregate, of its restricted common stock in conversion of \$255,010 of its debt to equity.

#### COMPETITION

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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. Additionally, many beef feedlots, poultry facilities and dairy farms simply scrape and accumulate manure for later field application. Both lagoon and scrape/pile manure storage approaches 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 industry and geographic segments.

There is also extensive competition in the livestock, ethanol production, biomass renewable energy, 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 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 in the past, pursued, with limited success to date, 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 (including those named above) have announced projects and/or solutions that sound similar to the Company's

20

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), which technologies do not reduce polluting nutrient releases and/or gaseous emissions in the manner or to the extent that Bion's technology reduces such negative environmental impacts. Further, 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 biomass extracted from the CAFO waste stream based on Bion's internal analysis. 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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

already been permitted and limited to the existing CAFO size.

### 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 2011, 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 four currently active 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. 6,689,274, Low Oxygen Waste Bioconversion System, expires November 2020.
- 2\* U.S. Patent No. 6,908,495, extension of Low Oxygen Waste Bioconversion System, expires June 2023.
- 3\* U.S. Patent No. 7,431,839 - 10/7/08: Low Oxygen Biologically Mediated Nutrient Removal; expires December 2021.
- 4\* 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 Bioconversion System, expires November 8, 2021.
- \* Mexican Patent No. 240,124, Low Oxygen Organic Waste Bioconversion System, expires November 8, 2021.
- \* Mexican Patent No. 263,375, Low Oxygen Organic Waste Bioconversion System, expires November 8, 2028.

21

### US Pending:

-----

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

On February 25, 2010, we filed a patent application titled "Method for Treating Nitrogen in Waste Streams." The application number is 12/713,011.

### Canadian Pending:

-----

On November 8, 2001, we filed a patent application titled "Low Oxygen Organic Waste Bioconversion System." The application number is 2428417. First office action received on April 9, 2010.

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

On April 18, 2005, we filed a patent application titled "Low Oxygen Biologically Mediated Nutrient Removal." The application number is 2503166. First office action received on August 31, 2010.

European Union Pending:  
-----

On November 8, 2001, we filed a patent application titled "Low Oxygen Organic Waste Bioconversion System." The application number is 1993586.5. First office action received on June 8, 2010.

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 years ended June 30, 2010 and June 30, 2009, respectively, we expended approximately \$194,000 and \$357,000 (including non-cash stock-based compensation expenditures) on research and development activities related to our technology platform applications in support of large-scale, economically and environmentally sustainable Integrated Projects and remediation activities. Bion's main efforts were directed at further refinement of our

22

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. 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 years prior to 2009 due to the fact that during the 2009 fiscal year a greater portion 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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 permits and/or other 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, 2010, we had 12 employees and primary consultants, 10 of whom are performing services for the Company on a full-time basis and 2 of whom (Jeff Kappel and Edward Schafer) provide consulting services to the Company on a part-time basis at this time. 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.

23

### ITEM 1A. RISK FACTORS.

Not applicable.

### ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

### ITEM 2. PROPERTIES.

The Company maintains its corporate office at Box 566/1774 Summitview Way, Crestone, Colorado 81131, the office of its president, and its main corporate telephone number is: (212) 758-6622. The Company remains responsible for its former corporate offices at 641 Lexington Ave, New York, New York 10022 which are currently subleased to Mr. Salvatore Zizza, former Chairman and director of the Company's Integrated Projects subsidiary. These offices are leased pursuant to a non-cancellable operating lease that became effective on August 1, 2006 and expires on November 30, 2013. The average monthly rental for the balance of the term of the lease is \$15,820. The master sub-lease with Mr. Zizza, presently not an affiliate of the Company, presently pays the Company's entire obligations under this lease through November 30, 2013.

The Company holds four currently active United States patents, one Canadian patent, two patents from Mexico, one patent from Australia and one New Zealand patent as described above. Three U.S. patent applications have

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

been filed and are pending and one application is pending in each of Canada and the European Union.

### ITEM 3. LEGAL PROCEEDINGS.

The Company is not currently involved in any material litigation.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

24

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

#### (a) Market Information

Our common stock is quoted on the Over-The-Counter Electronic Bulletin Board under the symbol "BNET." The following quotations reflect inter dealer prices, without retail mark up, markdown or commissions and may not represent actual transactions.

Fiscal Year Ended June 30, -----	2009		2010	
	High	Low	High	Low
-----	-----	-----	-----	-----
First Fiscal Quarter	\$2.74	\$1.72	\$2.72	\$0.85
Second Fiscal Quarter	\$2.10	\$0.55	\$2.77	\$1.62
Third Fiscal Quarter	\$1.25	\$0.64	\$2.27	\$1.54
Fourth Fiscal Quarter	\$1.90	\$0.76	\$2.39	\$1.20

#### (b) Holders

The number of holders of record of our common stock at August 31, 2010 was approximately 1,650. Many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, so we are unable to estimate the number of stockholders represented by these record holders.

The transfer agent for our common stock is Corporate Stock Transfer, Inc., 3200 Cherry Creek Drive South, Suite 430, Denver, Colorado 80209.

#### (c) Dividends

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

We have never paid any cash dividends on our common stock. Our board of directors does not intend to declare any cash dividends in the foreseeable future, but instead intends to retain earnings, if any, for use in our business operations. The payment of dividends, if any, in the future is within the discretion of the board of directors and will depend on our future earnings, if any, our capital requirements and financial condition, and other relevant factors.

During fiscal year 2009 the Company paid an aggregate dividend of \$12,877 on Series B Preferred Stock which was outstanding during the year. During fiscal year 2010 the Company paid an aggregate dividend of \$275,067 and \$59,538, respectively, on shares of Series B Preferred Stock and Series C Preferred Stock which were outstanding during the year.

### (d) Securities Authorized for Issuance Under Equity Compensation Plans

In June 2006 the Company adopted its 2006 Consolidated Incentive Plan, as amended ("Plan"), which terminated all prior plans and merged them into the Plan. The Plan was ratified by the Company's shareholders in October 2006. Under the Plan, Directors may grant Options, Stand Alone Stock

25

Appreciation Rights ("SAR's"), shares of Restricted Stock, shares of Phantom Stock and Stock Bonuses with respect to a number of Common Shares that in the aggregate does not exceed 6,000,000 shares. The maximum number of Common Shares for which Incentive Awards, including Incentive Stock Options, may be granted to any one Participant shall not exceed 500,000 shares in any one calendar year; and the total of all cash payments to any one participant pursuant to the Plan in any calendar year shall not exceed \$500,000. 2,803,333 Options have been granted and are outstanding under the Plan (as amended), including all options granted under prior merged plans, 250,000 options to certain employees that will be granted upon the execution of new employment agreements, 232,500 options to certain employees that have expired but will be extended upon the execution of new employment agreements and 50,000 options granted on August 31, 2010. Of the 2,803,333 options, 2,233,333 are vested as of September 1, 2010. Additionally, 465,000 shares of Contingent Stock Bonuses (none of which are vested) and 150,000 shares of Stock Bonuses have been granted under the Plan, of which 80,000 are vested as of September 1, 2010.

### Equity Compensation Plan Information

The following table summarizes share and exercise price information about the Company's equity compensation plans as of June 30, 2010:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (c)
Equity compensation plans approved by security holders	2,270,833	\$2.85	3,729,167



## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

Equity compensation plans not approved by security holders	-	-	-
<hr style="border-top: 1px dashed black;"/>			
Total	2,270,833	\$2.85	3,729,167
<hr style="border-top: 1px dashed black;"/>			

(e) Recent Sales of Unregistered Securities:

During April 2010 the Company concluded a private offering in which we sold 15,400 shares of our Series C Convertible Preferred Shares ('Series C Preferred Shares') and received net proceeds of approximately \$1,339,800 after commissions and offering expenses. The Company sold 2,600 Series C Preferred Shares through the June 30, 2010 interim closing of the second offering for net proceeds of approximately \$226,200 in a second offering. Through final closing on September 17, 2010, an additional 4,800 shares of Series C Preferred Stock were sold for net proceeds of approximately \$417,600 for total net proceeds of approximately \$643,800 from the sale 7,400 shares of

26

Series C Preferred Stock in the second offering. The Company has 22,800 shares of Series C Preferred Stock outstanding as of this date.

The Series C Preferred Shares were sold to accredited investors under Rule 506 of Regulation D under the Securities Act of 1933, as amended. The Series C Preferred Shares pay a dividend of 2.5% per quarter (pro-rated), are convertible into our common shares at \$4.00 per share, may be redeemed by the Company commencing one year after the initial sale in each offering and will be redeemed at 3 years if not previously converted.

During the fiscal year ended June 30, 2010 the Company sold 8,769 shares, in aggregate, of its restricted common stock for \$13,153 of cash (net proceeds). Additionally the Company issued 306,990 shares of its restricted common stock, in aggregate, for \$511,527 of services. The Company also issued 315,449 shares, in aggregate, of its restricted common stock in conversion of \$255,010 of its debt to equity. In all of these transactions the Company relied on the exemptions in Section 4(2) of the Securities Act of 1933, as amended, and/or under Rule 506 of Regulation D under the Securities Act of 1933, as amended.

On July 29, 2009 the Company concluded a private offering in which we sold 28,170 shares of its Series B Convertible Preferred Shares ('Series B Preferred Shares') and received net proceeds of approximately \$2,450,000 after commissions and offering expenses. The Series B Preferred Shares were sold to accredited investors under Rule 506 of Regulation D under the Securities Act of 1933, as amended. The Company sold 21,320 Series B Preferred Shares through June 30, 2009 for net proceeds of approximately \$1,854,840 with the balance sold thereafter. The Series B 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.

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. In all of these transactions the Company relied on the exemptions in Section 4(2) of the Securities Act of 1933, as amended, and/or under Rule 506 of Regulation D under the Securities Act of 1933, as amended.

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

### ITEM 6. SELECTED FINANCIAL DATA.

N/A

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

Included in ITEM 8 are the audited Consolidated Financial Statements for the fiscal years ended June 30, 2010 and 2009 ("Financial Statements").

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

27

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,

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 recovering cellulosic biomass 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

28

releases to the environment while generating marketable nutrient credits and renewable energy. On January 26, 2009 the Board of the Pennsylvania Infrastructure Investment Authority ('Pennvest') 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. After substantial unanticipated delays over the past year, on August 12, 2010, the Company received a permit for construction of the Phase 1 Kreider System. Construction related activities and equipment ordering are expected to commence during the next 30-45 days. The Company anticipates that the initial settlement/closing of the Pennvest loan will take place during the next 30 days and that we will submit our initial drawdown/reimbursement request to Pennvest shortly thereafter. The Company presently anticipates that the initial drawdown/reimbursement from Pennvest pursuant to the Pennvest Loan will be received during the next 60-90 days. The Company believes that the construction will be completed and the project will be operational by Spring 2011. The Pennsylvania Department of Environmental Protection recently re-certified the nutrient credits for this project.

Additionally, we believe that Bion's technology platform will allow 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 with regard to regulatory and legislative initiatives and with such parties and

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

potential industry participants to evaluate sites in multiple states. The Company has tentatively selected the Town of Schroepfel and Oswego County, New York for its initial Integrated Project and anticipates optioning land in that area during the current fiscal year or soon thereafter (although other locations in upstate New York and in other states are also under review). In addition, Bion intends to choose sites for additional Projects during the remainder of calendar years 2010-2012 to create a pipeline of Projects. Management has a 5-year development target (through calendar year 2016) of approximately 12-24 Integrated Projects. At the end of that period, Bion projects that 5 or more of these Integrated Projects will be in full

29

operation in 3-6 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 financial statements for the years ended June 30, 2010 and 2009 have been prepared assuming the Company will continue as a going concern. The Company has incurred net losses of approximately \$2,976,000 and \$1,318,000 during the years ended June 30, 2010 and 2009, respectively. At June 30, 2010, the Company had a working capital surplus and stockholders' deficit of approximately \$381,000 and \$1,535,000, 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, 2010 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 notes thereto), 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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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.

30

### 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. 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 Accounting Standards Codification 718, which generally requires that share-based compensation transactions be accounted and recognized in the statement of income based upon their fair values.

### RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued a new accounting standard which provides guidance that, among other things, requires a qualitative rather than quantitative analysis to determine the primary beneficiary of a variable interest entity ("VIE"), which amends previous guidance for consideration of related party relationships in the determination of the primary beneficiary of a VIE, amends certain guidance for determining whether an entity is a VIE, requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE, and requires enhanced disclosures about an enterprise's involvement with a VIE. The adoption of this guidance (effective for the Company July 1, 2010) is not expected to have a material impact on the Company's consolidated financial statements.

In May 2009, the FASB established general standards for accounting and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The pronouncement required the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, whether that date represents the date the financial statements were issued or were available to be issued. In February 2010, the FASB amended this standard. As a result, the Company is no longer required to disclose in the financial statements that the Company has evaluated subsequent events or disclose the date through which subsequent events have been evaluated.

### YEAR ENDED JUNE 30, 2010 COMPARED TO THE YEAR ENDED JUNE 30, 2009

#### General and Administrative

Total general and administrative expenses were \$2,778,000 and \$1,960,000 for the years ended June 30, 2010 and 2009, respectively.

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

General and administrative expenses, excluding stock-based compensation charges of \$464,000 and \$25,000 for the years ended June 30, 2010 and 2009,

31

respectively, were \$2,314,000 and \$1,935,000 for the years ended June 30, 2010 and 2009, respectively, representing a \$379,000 increase. Legal expenses for the years ended June 30, 2010 and 2009 were approximately \$535,000 and \$138,000, respectively. Legal fees were higher during the year ended June 30, 2010 due to the hiring of an additional law firm to pursue federal legislative initiatives related to development of our Integrated Projects and remediation business opportunities in addition to ongoing work related to our Kreider projects. Legal costs for the year ended June 30, 2009 were lower due to insurance reimbursements of legal costs relating to the Centerpoint litigation. Accounting and tax fees were approximately \$127,000 and \$100,000 for the years ended June 30, 2010 and 2009, respectively. The increase in accounting and tax fees for the fiscal year 2010 is attributable to the costs associated with the preparation of three years of federal and state tax returns. The Company also expensed \$54,000 and \$1,000 for the years ended June 30, 2010 and 2009, respectively, in investor relations related costs due to the increase in shareholders and investing activities during the current fiscal year. Partially offsetting the higher legal, accounting and tax and investor relations fees described above are reduced salary and payroll expenses of \$672,000 and \$703,000 for the years ended June 30, 2010 and 2009, respectively. The decrease in salaries and related payroll taxes is due to the fact that approximately \$189,000 of salary and payroll tax cost was capitalized as a direct cost of the KF project.

General and administrative stock-based compensation for the years ended June 30, 2010 and 2009 consist of the following:

	Year ended June 30, 2010	Year ended June 30, 2009
	-----	-----
General and administrative:		
Fair value remeasurement of options with service conditions	\$ 92,000	\$(184,000)
Fair value of stock options expensed under ASC 718	307,000	209,000
Fair value of stock bonuses expensed	65,000	-
	-----	-----
Total	\$ 464,000	\$ 25,000
	=====	=====

Stock-based compensation charges increased from \$25,000 to \$464,000 for the years ended June 30, 2009 and 2010, respectively. The Company recognized general and administrative expenses/(credits) of \$92,000 and \$(184,000) for the remeasurement of options with service conditions. The increase is due to the remeasurement of options with service conditions and changes in the fair value of the options during the years ended June 30, 2009 and 2010. For the year ended June 30, 2010 the Company recognized expense relating to the fair value of stock options for general and administrative employees of \$307,000, compared to \$209,000 for the year ended June 30, 2009. Compensation expense relating to stock options was higher during the year ended June 30, 2010 due to 275,000 options being granted during the year versus 75,000 options being issued during the prior fiscal year. The Company also recognized general and administrative expenses of \$65,000 due to the issuance of stock bonuses during the year ended June 30, 2010 which have vesting periods over a year. There was no similar expense in the 2009 fiscal year.

## Research and development

Total research and development expenses were \$194,000 and \$357,000 for the years ended June 30, 2010 and 2009, respectively.

Research and development expenses, excluding stock-based compensation charges of \$17,000 and \$118,000 for the years ended June 30, 2010 and 2009 were \$177,000 and \$239,000, respectively. The primary reason for the decrease in research and development expenses during the year ended June 30, 2010 is due to the shift in the Company's focus from research and 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 \$98,000 and \$130,000 for the years ended June 30, 2010 and 2009, respectively, and the decrease is due to the expensing of previous research and development employees to general and administrative expense and the capitalization salaries for the KF project.

Research and development stock-based compensation for the year ended June 30, 2010 and 2009 consist of the following:

	Year ended June 30, 2010	Year ended June 30, 2009
	-----	-----
Research and development:		
Fair value remeasurement of options with service conditions	\$ -	\$ 65,000
Fair value of stock bonuses expensed	10,000	-
Fair value of stock options expensed under ASC 718	7,000	53,000
	-----	-----
Total	\$ 17,000	\$118,000
	=====	=====

Stock-based compensation expense decreased from \$118,000 for the year ended June 30, 2009 to \$17,000 for the fiscal year 2010. 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 2010 were primarily allocated to general and administrative and/or capitalized as part of the KF Project.

## Loss from Operations

As a result of the factors described above, the loss from operations was \$2,972,000 and \$2,317,000 for the years ended June 30, 2010 and 2009, respectively.

## Other expense (income)

Other expense (income) was \$4,000 and \$(999,000) for the years ended June 30, 2010 and 2009, respectively. Interest expense decreased to \$2,000 for the years ended June 30, 2010 from \$38,000 for the year ended June 30, 2009. Interest expense decreased due to lower interest bearing debt during the year ended June 30, 2010. Interest income was \$13,000 and \$2,000 for the

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

years ended June 30, 2010 and 2009, respectively, and the increase is due to higher interest bearing cash deposits due to proceeds from the sale of Preferred Series B and C shares during the 2010 fiscal year. For the year ended June 30, 2009, the Company recognized other income of \$1,034,000 due to the forfeiture of deferred compensation relating the cancellation of Mr. Zizza's Notes of \$959,000 and a \$75,000 settlement with the Company's directors and officers' liability insurance providers. For the year ended June 30, 2010, the Company record \$15,000 loss on extinguishment of debt due to the modification the terms of a deferred compensation agreement.

Net loss attributable to the noncontrolling interest

The net loss attributable to the noncontrolling interest was \$5,000 and \$6,000 for the years ended June 30, 2010 and 2009, respectively.

Net loss attributable to Bion's common stockholders

As a result of the factors described above, the net loss attributable to Bion's common stockholders was \$3,305,000 and \$1,325,000 for the years ended June 30, 2010 and 2009, respectively, resulting in the net loss per basic and diluted common share for the years ended June 30, 2010 and 2009 of \$0.28 and \$0.12, respectively.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's financial statements for the year ended June 30, 2010 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, 2010 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.

As of June 30, 2010, the Company had cash and cash equivalents of approximately \$1,026,000. During the year ended June 30, 2010, net cash used in operating activities was \$2,084,000, 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 two 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, 2010 the Company used \$390,000 for the purchase of property and equipment and the design and permitting of the KF Project which has been capitalized as property and equipment. Cash of \$29,000 was provided due to the release of restricted funds during the year ended June 30, 2010.

34

#### Financing Activities

During the year ended June 30, 2010, \$13,000 of cash was provided from



## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

the sale of the Company's restricted common stock, \$596,000 was provided from the sale of the Company's Series B preferred stock and \$1,566,000 was provided from the sale of the Company's Series C preferred stock. The Company used \$163,000 for the repayment of loans payable to affiliates and \$218,000 and \$20,000 was paid for Series B and Series C preferred dividends, respectively.

As of June 30, 2010 the Company has significant debt obligations consisting primarily of deferred compensation of \$165,000. In addition, the Company entered into an 88-month operating lease for office space in New York City in August 2006, with an average monthly lease expense of \$15,820. As of June 30, 2010, the Company has 40 months remaining on the lease.

### Plan of Operations and Outlook

As of June 30, 2010 the Company had cash and cash equivalents of approximately \$1,026,000. 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 received a permit for construction of the KF Project on August 12, 2010. The Company anticipates that construction related activities and equipment ordering commenced will commence during the next 30-45 days. The Company anticipates that the initial settlement/closing of the Pennvest loan will take place within 30 days and that we will submit our initial drawdown/reimbursement request shortly thereafter. The Company anticipates that the initial drawdown/reimbursement from Pennvest will be received within 60-90 days.

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, finance its Projects and other activities, continue its technology development and/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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 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 with regard to regulatory and legislative initiatives and with such parties and potential industry participants to evaluate sites in multiple states and anticipates selecting a site for its initial Integrated Project during the 2010 fiscal year. The Company has tentatively selected the Town of Schroepfel and Oswego County, New York for its initial Project and anticipates optioning land in that area during the 2011 fiscal year or soon thereafter (although other locations in upstate New York and in other states are also under review). At present it is possible, but not certain, that the initial Integrated In addition, Bion intends to choose sites for additional Projects during the calendar years 2010-2012 to create a pipeline of Projects. Management has a 5-year development target (through calendar year 2016) of approximately 12-24 Integrated Projects. At the end of that period, Bion projects that 6 or more of these Integrated Projects will be in full operation in 3-6 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.

### 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 \$57,315 in connection with the lease as of June 30, 2010. 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 entered into a Master Sublease with the Company pursuant to which Mr. Zizza became a sublessee and for a one year initial period, made all payments pursuant to the lease and managed the lease premises. Rental payments from existing sub-tenants are being deposited into a Company bank account such that Mr. Zizza utilizes

36

those funds towards the monthly lease payment. During November 2009, Mr. Zizza exercised his option to continue the Master Sublease for the entire period of the lease. Mr. Zizza fulfilled his obligations under the Master Sublease during the one year initial period and in January 2010; he received the funds from the release from the Company's letter of credit of \$28,658. Since Mr. Zizza exercised 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 of approximately \$57,000 if he fulfills his obligations pursuant to the Master Sublease.

2) On September 27, 2008, the Company executed an agreement with

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 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 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. After substantial unanticipated delays over the past year, on August 12, 2010, the Company received a permit for construction of the Phase 1 Kreider System. Construction related activities and equipment ordering commenced shortly thereafter. The Company anticipates that the initial settlement/closing of the Pennvest loan will take place during the next 30-45 days and that we will submit our initial drawdown/ reimbursement request to Pennvest shortly thereafter. The Company presently anticipates that the initial drawdown/re-imburement from Pennvest pursuant to the Pennvest Loan will be received during the next 60-90 days. The Company believes the \$7.8 million loan from Pennvest will be sufficient to fund the anticipated construction costs and that the construction will be completed and the project will be operational during the Spring of 2011. The Pennsylvania Department of Environmental Protection recently re-certified the nutrient credits for this project.

### 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.

37

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

N/A

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements are set forth on pages F-1 through F-27 hereto.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

### ITEM 9A. CONTROLS AND PROCEDURES.

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

### Disclosure Controls and Procedures

As of June 30, 2010, 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, 2010 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 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, 2010. 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

38

controls in place, it is difficult to ensure effective segregation of 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.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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

### ITEM 9B. OTHER INFORMATION

None.

39

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Our directors, executive officers and significant employees/consultants, along with their respective ages and positions are as follows:

Name ----	Age ---	Position -----
Director and Officers:		
Mark A. Smith	60	President, General Counsel, Interim Chief Financial Officer and Director
Jon Northrop	67	Secretary and Director
Significant Employees:		
Jeremy Rowland	47	Chief Operating Officer of Services Group
James W. Morris	60	Chief Technology Officer
George W. Bloom	61	Chief Engineering Officer

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

Dominic Bassani	64	Director-Special Projects and Strategic Planning of Projects Group and Full Time Consultant to Bion
-----------------	----	---

Mark A. Smith (60) has been President, General Counsel, interim Chief Financial Officer and a director of Bion Environmental Technologies, Inc. since late March 2003. Since that time, he has also served as sole director, President and General Counsel of Bion's wholly-owned subsidiaries including Project Group and Services Group. Since mid-February 2003, Mr. Smith has served as sole director and President and General Counsel of Bion's majority-owned subsidiary, Centerpoint Corporation. Previously, from May 21, 1999 through January 31, 2002, Mr. Smith served as a director of Bion. From July 23, 1999, when he became President of Bion, until mid-2001 when he ceased to be Chairman, Mr. Smith served in senior positions with Bion on a consulting basis. Additionally, Mr. Smith was the president of RSTS Corporation prior to its acquisition of Bion Technologies, Inc. in 1992. Mr. Smith received a Juris Doctor Degree from the University of Colorado School of Law, Boulder, Colorado (1980) and a BS from Amherst College, Amherst, Massachusetts (1971). Mr. Smith has engaged in the private practice of law in Colorado since 1980. In addition, Mr. Smith has been active in running private family companies, Stonehenge Corporation (until 1994) and LoTayLingKyur, Inc. (1994-2002). Until returning to Bion during March 2003, Mr. Smith had been in retirement with focus on charitable work and spiritual retreat.

Jon Northrop (67) has served as our Secretary and a Director since March of 2003. Since September 2001 he has been self employed as a consultant with a practice focused on business buyer advocacy. Mr. Northrop is one of our founders and served as our Chief Executive Officer and a Director from our inception in September 1989 until August 2001. Before founding Bion Technologies, Inc., he served in a wide variety of managerial and executive

40

positions. He was the Executive Director of Davis, Graham & Stubbs, one of Denver's largest law firms, from 1981 to 1989. Prior to his law firm experience, Mr. Northrop worked at Samsonite Corporation's Luggage Division in Denver, Colorado, for over 12 years. His experience was in all aspects of manufacturing, systems design and implementation, and planning and finance, ending with three years as the Division's Vice President, Finance. Mr. Northrop has a bachelor's degree in Physics from Amherst College, Amherst, Massachusetts (1965), an MBA in Finance from the University of Chicago, Chicago, Illinois (1969), and spent several years conducting post graduate research in low energy particle physics at Case Institute of Technology, Cleveland, Ohio. Jon Northrop is the brother of Jere Northrop.

George W. Bloom (56), Bion's Chief Engineering Officer, has been with Bion since December 2000 and served as Chief Operating Officer since January 15, 2002 of our Bion Technologies, Inc. subsidiary until our 2008 functional reorganization. From 1986 through December 2000, Mr. Bloom was employed by Woodard & Curran, Inc., an environmental engineering and science-consulting firm, where he held the position of Chief Engineer of the Municipal Business Center at the time of his departure. Mr. Bloom is a registered professional engineer with over twenty years of environmental engineering and consulting experience specializing in the planning, design, construction and operation of waste treatment facilities. Mr. Bloom is responsible at Bion for oversight of the planning, design and construction of waste treatment systems and solids processing facilities. He has his BS in Environmental Science from Cornell University.

Jeremy Rowland (47) joined Bion on September 18, 2006 and presently

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

serves as Chief Operating Officer of Services Group. Prior to joining Bion, he worked for URS Corporation, a major national engineering/consulting firm, for 16 years where he developed and lead URS's efforts in the renewable energy marketplace. Mr. Rowland has eighteen years experience in multi-disciplinary energy and environmental project development and management throughout the U.S. and overseas. Mr. Rowland's areas of expertise include renewable energy project development, distributed generation (mostly combined heat/power), large-scale power plant developments, and strategic energy management. Mr. Rowland earned his MS in Environmental Science in 1987 and his BS in Forest Ecology in 1985 from Southern Illinois University, School of Agriculture Science.

James W. Morris (60) has served as Bion's Chief Technology Officer since February 2002 and is co-inventor of portions of the Bion Process. Prior to joining Bion, Dr. Morris provided the Company with technical assistance and technical advice for over two years as a consultant. Other consulting work included eight years acting as the Senior Technical Consultant for a large environmental consulting firm and the formation of James W. Morris & Associates, Inc. that allowed him to serve clients ranging from small commercial establishments, to municipalities and corporations, as well as a sub consultant to several larger engineering firms. Dr. Morris is a licensed professional engineer in Maine and Vermont with more than 30 years of engineering experience. Over a twelve-year period he performed research and taught graduate and undergraduate engineering as a member of the faculties of Cornell University, the University of Manitoba and the University of Vermont. He earned his BSCE and MSCE at Tennessee Technological University and a Ph.D. in Environmental Quality/Agricultural Engineering from Cornell University. He is a member of the American Society of Civil Engineers, Water Environment

41

Federation, Institute of Food Technologists, American Society of Agricultural Engineers, Agricultural Engineering Society, Aquacultural Engineering Society and American Water Works Association, Tau Beta Phi (Engineering honor society), Chi Epsilon (Civil Engineering honor society) and is a member of Sigma Xi, The Scientific Research Society of North America.

Dominic Bassani (64), a full-time consultant to the Company, served as the General Manager of Bion's Projects Group subsidiary from April 2003 through September 2006. Since September 15, 2008 he has served as Director-Special Projects and Strategic Planning of our Projects Group subsidiary. He has been an investor in and consultant to Bion since December 1999. He is an independent investor and since 1990 has owned and operated Brightcap, a management consulting company that provides management services to early stage technology companies. He was a founding investor in 1993 in Initial Acquisition Corp. that subsequently merged in 1995 with Hollis Eden Corp. (HEPH), a biotech company specializing in immune response drugs. From early 1998 until June 1999 he was a consultant to Internet Commerce Corp. (now EasyLink Services International Corporation) (ESIC), a leader in business-to-business transactions using the Internet. He is presently an investor in numerous private and public companies primarily in technology related businesses. From 1980 until 1986, Mr. Bassani focused primarily on providing management reorganization services to manufacturing companies and in particular to generic pharmaceutical manufacturers and their financial sponsors.

### Family Relationships

There are currently no family relationships among our Directors and Executive Officers.

# Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

## Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our officers and directors, and stockholders owning more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. The Company is not aware of any persons who failed to timely file reports under this section.

## Involvement in Legal Proceedings

To the best of our knowledge, during the past five years, none of the following occurred with respect to our directors or executive officers:

(1) any bankruptcy petition filed by or against any business of which one of them was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses).

(3) being subject to any order, judgment or decree of any court of competent jurisdiction, permanently or temporarily inquiring, barring, suspending or otherwise limiting involvement in any type of business, securities or banking activities, and

42

(4) being found by a court of competent jurisdiction, the SEC or the CFTC to have violated Federal or state securities or commodities laws.

## Audit Committee

The Company has no audit committee and is not now required to have one, or an audit committee financial expert.

## Code of Ethics

To date, the Company has not adopted a code of business conduct and ethics applicable to its officers, directors or accounting officer.

## ITEM 11. EXECUTIVE COMPENSATION.

### SUMMARY COMPENSATION TABLE

The following table sets forth the compensation paid to, or accrued for, each of our current and former executive officers during each of our last two fiscal years and the compensation paid to, or accrued for, each of our significant employees and consultants for the same period.

Name and Principal Position	Fiscal Year	Salary (1)	Bonus	Stock Awards	Option Awards (2)	Non-Equity Incentive Plan Compensation	Non-Qualified Deferred Compensation Earnings	Other Compensation
-----	-----	-----	-----	-----	-----	-----	-----	-----



## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

Mark A. Smith (3) President and Interim Chief Financial Officer since March 25, 2003, Director	2010	\$171,000	\$ 35,000	\$ -	\$ 46,750	\$ -	\$ -	\$ -
	2009	\$150,000	\$ 37,500	\$ -	\$ 7,750	\$ -	\$ -	\$ -
Brightcap/Dominic Bassani(4) VP-Special Projects & Strategic Planning	2010	\$309,000	\$ 60,000	\$ -	\$ -	\$ -	\$ -	\$ -
	2009	\$300,000	\$125,000	\$ -	\$ -	\$ -	\$ -	\$ -
George W. Bloom (5) Chief Operating Officer Bion Technologies	2010	\$150,000		\$ - \$16,833	\$ -	\$ -	\$ -	\$ -
	2009	\$150,000		\$ -	\$ -	\$ -	\$ -	\$ -
James W. Morris (5) Chief Technology Officer Bion Technologies	2010	\$150,000	\$ -	\$21,042	\$ -	\$ -	\$ -	\$ -
	2009	\$150,000	\$ 2,500	\$ -	\$ -	\$ -	\$ -	\$ -
Jeremy Rowland Chief Operating Officer of Services Group	2010	\$150,000	\$ -	\$16,833	\$118,345	\$ -	\$ -	\$ -
	2009	\$150,000	\$ -	\$ -	\$178,867	\$ -	\$ -	\$ -
Salvatore J. Zizza (6) Chairman and Director of Projects Group	2010	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	2009	\$150,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

- 
- (1) Includes compensation paid by Bion Technologies, Inc. and our wholly owned subsidiaries.
- (2) Reflects the dollar amount expensed by the Company during the applicable fiscal year for financial statement reporting purposes pursuant to ASC 718.

43

- (3) Effective July 27, 2010, Mr. Smith has agreed to provide services to Bion and subsidiaries through December 31, 2011, at an annual salary of \$228,000 commencing September 1, 2010. Mr. Smith's agreement dated September 30, 2009 increased his monthly salary from \$12,500 commencing January 2009. In January 2009 Mr. Smith agreed to accept 88,102 shares of the Company's common stock in exchange for his deferred salary of \$66,076 for the period from July 1, 2008 to December 31, 2008 and also accepted 200,000 shares of the Company's common stock as payment for his calendar year 2009 salary of \$150,000.
- (4) On September 30, 2009 the Company entered into an extension agreement with Brightcap for services provided to the Company by Dominic Bassani at an annual consulting fee of \$312,000 for services provided through September 30, 2012.
- (5) Stock awards and options were issued subject to execution of a new employment agreement which, as of June 30, 2010, has not been finalized.
- (6) Mr. Zizza was working for the Company at an annual compensation rate of \$300,000 prior to his resignation on December 31, 2008.

### Employment Agreements

Effective March 31, 2007 Mark A. Smith, our President, agreed to serve as President, General Counsel and as a Director of the Company and its subsidiaries until December 31, 2007 for compensation at an annual rate of \$150,000. The amount deferred through June 30, 2007 under this arrangement is

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

\$37,500 which sum has been accrued on a non-convertible and non-interest bearing basis. Amounts accrued prior to April 1, 2006 in the amount of \$401,954 (principal and accrued interest) are represented by a convertible promissory note bearing interest at the rate of 6% per annum and convertible after July 1, 2007 into the Company's common stock at the lower of the current market value at the time of conversion, or \$2.00 per share. The note is mandatorily convertible on July 1, 2009. On March 31, 2007, Mr. Smith agreed to accept \$151,645 of the Company's 2007 Series A Convertible Notes ("Series A 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. As of May 31, 2008, the Company entered into an extension agreement with Mr. Smith through December 31, 2009 (part of which period may consist of consulting) which allowed for the conversion of deferred compensation accrued through June 30, 2008 of \$179,280 into 89,640 common shares of the Company. On January 11, 2009, the Company and Mr. Smith entered into an agreement pursuant to which Mr. Smith will continue to hold positions of Director, President and General Counsel of the Company and its subsidiaries. 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 of \$66,076 into 88,102 shares of the Company's common stock at \$.75 per share. On September 30, 2009, the Company and Mr. Smith entered into an extension agreement whereby Mr. Smith agreed to continue to hold his current position in the Company through a date no later than December 31, 2010. Commencing January 1, 2010, Mr. Smith was paid a monthly salary of \$16,000 in addition to a cash bonus of \$15,000 paid in January 2010. In addition Mr. Smith was granted a \$20,000 bonus payable in warrants to purchase 200,000 shares of the Company's common stock at a price of \$2.50 per

44

share until January 15, 2019. Effective on July 27, 2010, the Company executed another extension agreement with Mr. Smith pursuant to which he agreed to extend his service to the Company through a date no later than December 31, 2011 at a salary of \$19,000 per month. In connection therewith the Company granted MAS a cash bonus of \$20,000 payable on January 1, 2011, and a bonus of \$20,000 payable in the form of 200,000 warrants exercisable to purchase the Company's restricted stock at a price of \$2.00 per share until January 15, 2019.

Dominic Bassani, full-time consultant to the Company and Director-Special Projects and Strategic Planning of Projects Group, agreed, through Brightcap, to serve as a consultant to Bion and Projects Group until March 31, 2009 for compensation of \$300,000 per year. Amounts accrued prior to September 30, 2005 in the amount of \$549,704 (principal and accrued interest) are represented by a convertible promissory note bearing interest at the rate of 6% per annum and convertible after July 1, 2007 into the Company's common stock at the lower of the current market value at the time of conversion or \$2.00 per share. The note was mandatorily convertible on July 1, 2009. On March 31, 2007 Brightcap agreed to accept \$455,486 of the Company's Series A Notes in exchange for its deferred compensation for the period from January 1, 2007 through March 31, 2007 and the Company's promissory notes issued on January 1, 2007 for its deferred compensation owed by Bion on December 31, 2006. The amount deferred through June 30, 2007 under this arrangement was \$75,000 which sum is accrued on a non-convertible and non-interest bearing basis. During fiscal year 2008, the Company entered into an agreement with

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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. As of June 30, 2008 the Company owed Brightcap deferred compensation of \$25,000. On January 11, 2009, the Company entered in an agreement which extends Mr. Bassani's services under the terms of the March 31, 2005 agreement to September 30, 2009. 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. Pursuant to the agreement the Company no longer defers compensation earned by Brightcap and since July 2009, Brightcap has been paid in cash. The agreement granted Brightcap the right, at its sole election, 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 then outstanding \$50,000 promissory note to June 30, 2009 and allowed for the conversion of the principal and interest, in whole or in part, at the election of Mr. Bassani, into the Company's restricted common shares at \$0.75 per share. The promissory note was converted on June 30, 2009. Brightcap's \$150,000 deferred compensation for the period from January 1, 2009 through June 30, 2010 is now due on July 1, 2010 and Brightcap has the right to convert this obligation, in whole or in part, to the Company's common stock at \$1.50 per share until June 30, 2010. On September 30, 2009 the Company entered into an extension agreement with Brightcap pursuant to which Mr. Bassani will provide services to the Company through September 30, 2012 for \$312,000 annually. In conjunction with the extension agreement, Mr. Bassani was granted a \$60,000 bonus payable in warrants to purchase 600,000 shares of

45

the Company's common stock at a price of \$2.50 per share until January 15, 2019. Mr. Bassani was also granted an extension on the conversion date of the \$175,000 deferred compensation from December 31, 2009 until January 14, 2010. Effective June 30, 2010 Dominic Bassani, Director-Strategic Planning and Special Projects of our Bion Integrated Projects Group, Inc. subsidiary and full-time consultant to the Company, extended the maturity date of the \$150,000 convertible obligation due to him to July 1, 2011. In connection with the extension, Mr. Bassani received a \$15,000 bonus which was added to the principal of the obligation and the obligation was made interest bearing at a 10% annual simple interest rate. The obligation continues to be convertible into the Company's restricted common stock at a price of \$1.50 per share.

Effective September 18, 2006, Bion entered into a four-year employment agreement with Jeremy Rowland. Under the terms of the agreement, Mr. Rowland serves as Services Group's Chief Operating Officer at a salary of \$150,000 per year. 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.

Effective June 30, 2009, Mr. Craig Scott, the Company's VP-Capital Markets and Shareholder Relations, agreed to extend the term of his agreement with the Company pursuant to which Mr. Scott acts as Vice President of Capital Markets and Shareholder Relations through December 31, 2010, at an annual salary of \$144,000. The Company has granted Mr. Scott options (with vesting conditions) to purchase 100,000 shares of the Company's common stock at a price of \$1.25 per share through June 30, 2014. The Company has the right terminate the agreement with 30 days notice commencing December 2009

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

with no further liability.

### Other Agreements

In May 2005, Bion declared Contingent Stock Bonuses of 690,000 shares, in aggregate, to its key employees and consultants. On September 1, 2010 Contingent Stock Bonuses of 327,500 and 115,000 shares remained outstanding and 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 prices are reached.

Effective July 1, 2009, the Company has made grants of stock bonuses aggregating 150,000 shares, which grants are split among all of the Company's core employees and consultants (including a severance grant to a former consultant) other than Mr. Bassani and Mark A. Smith, the Company's President, pursuant to the Company's 2006 Consolidated Incentive Plan, as amended. These stock bonuses have various conditions regarding vesting.

### OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth the number of shares of common stock covered by outstanding stock option awards that are exercisable and unexercisable, and the number of shares of common stock covered by unvested restricted stock awards for each of our named executive officers as of June 30, 2009.

46

Name	Option Awards					Stock Awards		
	Number of Securities Underlying Unexercisable	Number of Securities Underlying Unexercisable	Equity Incentive Plan Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Award Number of Unexercised Shares or Units of Stock That Have Not Vested (3)
Mark A. Smith	20,000	-	-	\$2.00	2012	-	-	-
Mark A. Smith	10,000	-	-	\$2.50	2015	-	-	-
Mark A. Smith	12,500	-	-	\$4.25	2012	-	-	-
Mark A. Smith	50,000	-	-	\$5.00	2012	-	-	-
Mark A. Smith	12,500	-	-	\$5.50	2012	-	-	-
Mark A. Smith	100,000	-	-	\$4.25	2012	-	-	-
Mark A. Smith	125,000	-	-	\$2.20	2012	-	-	-
Mark A. Smith	70,000	-	-	\$2.50	2013	-	-	-
Mark A. Smith	25,000	-	-	\$1.00	2014	-	-	-
Mark A. Smith	25,000	-	-	\$1.25	2014	-	-	-
Mark A. Smith	25,000	-	-	\$2.25	2015	-	-	-

Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

Brightcap/ Dominic Bassani	-	-	-	-	-	-	-	250,
George W. Bloom	100,000	-	-	\$2.50	2015	-	-	75,
George W. Bloom(1)	100,000	-	-	\$3.00	2012	-	-	-
James W. Morris	100,000	-	-	\$2.50	2015	-	-	75,
James W. Morris(1)	100,000	-	-	\$3.00	2012	-	-	-
Jeremy Rowland(2)	150,000	-	-	\$3.00	2012	-	-	-
Jeremy Rowland(2)	31,250	18,750	-	\$3.00	2012	-	-	-
Salvatore J. Zizza	7,500	-	-	\$5.00	2012	-	-	-

(1) Options have been approved subject to the execution of a new employment agreement which as of has not been finalized.

(2) Common share purchase options to acquire 150,000 shares of common stock at \$3.00 per share were granted on May 31, 2008 in connection with the signing of a new employment agreement. These options vest over a period (1/8 each quarter) from the grant date anniversary. Common share purchase options to acquire 18,750 shares of common stock at \$3.00 per share were granted on May 31, 2008. These options vest over a period (1/8 each six months) from the grant date anniversary.

(3) During May 2005 the Company's Board of Directors approved the issuance of deferred stock bonuses to certain employees and consultants. The stock bonuses are contingent upon the Company's stock price exceeding \$20 per shares for 20 consecutive trading days and the grantees still being employed or providing services to the Company at the time the target prices are reached.

Director Compensation

Members of the Board of Directors do not currently receive any cash compensation for their services as Directors, but are entitled to be

47

reimbursed for their reasonable expenses in attending meetings of the Board. However, it is the Company's intention to begin to pay cash compensation to Board members at some future date.

DIRECTOR COMPENSATION

The following table sets forth certain information regarding the compensation paid to directors during the fiscal year ended June 30, 2010:

Name	Fees earned or paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)(1)	Non-equity Incentive Plan Compen- sation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Jon Northrop(2)	-	-	23,375	-	-	-	23,375
Jere Northrop (3) (4)	9,000	-	19,125	-	-	-	28,125

Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

- (1) Reflects the dollar amount expensed by the Company during the applicable fiscal year for financial statement reporting purposes pursuant to ASC 718.
- (2) Includes 50,000 shares that Mr. Jon Northrop is entitled to purchase through stock options granted on July 1, 2009 and April 1, 2010, all of which are exercisable.
- (3) Includes 45,000 shares that Mr. Jere Northrop is entitled to purchase through stock options granted on July 1, 2009 and October 1, 2010, all of which are exercisable.
- (4) Includes consulting fees paid to Mr. Jere Northrop during fiscal year 2010.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

At September 1, 2010, the Company had issued 12,803,840 shares of its common stock, of which 12,099,531 are outstanding (the balance of 704,309 shares are owned by Centerpoint, the Company's majority owned subsidiary).

The following table sets forth certain information regarding the beneficial ownership of our common stock as of September 11, 2009 by:

- \* each person that is known by us to beneficially own more than 5% of our common stock;
- \* each of our directors;
- \* each of our executive officers and significant employees; and
- \* all our executive officers, directors and significant employees as a group.

Under the rules of the Securities and Exchange Commission, beneficial ownership includes voting or investment power with respect to securities and includes the shares issuable under stock options that are exercisable within

48

sixty (60) days of September 1, 2010. Those shares issuable under stock options are deemed outstanding for computing the percentage of each person holding options but are not deemed outstanding for computing the percentage of any other person. The percentage of beneficial ownership schedule is based upon 12,099,531 shares outstanding as of September 1, 2010. The address for those individuals for which an address is not otherwise provided is c/o Bion Environmental Technologies, Box 566/1774 Summitview, Crestone, Colorado 81131. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting power and investment power with respect to all shares of common stock listed as owned by them.

Name and Address	Shares of Common Stock Beneficially Owned		
	Number	Percent of Class Outstanding	Entitled to Vote
-----	-----	-----	-----

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

Centerpoint Corporation (1) Box 566/1774 Summitview Crestone, Colorado 81131	704,309	5.5%	-
Dominic Bassani (2) 64 Village Hills Drive Dix Hills, NY 11746	5,040,366	32.2%	33.7%
Chris-Dan, LLC (3) c/o Dominic Bassani 64 Village Hills Drive Dix Hills, NY 11746	1,055,692	8.2%	8.7%
Bright Capital, Ltd. (4) c/o Dominic Bassani 64 Village Hills Drive Dix Hills, NY 11746	1,522,725	11.4%	12.1%
Bright Capital, Ltd. Defined Benefit Pension Plan (5) c/o Dominic Bassani 64 Village Hills Drive Dix Hills, NY 11746	785,501	6.1%	6.5%
Anthony Orphanos (6) c/o Carret Asset Management 40 West 57th Street New York, NY 10019	1,285,033	10.0%	10.6%
Danielle Christine Bassani (7) c/o Dominic Bassani 64 Village Hills Drive Dix Hills, NY 11746	614,000	4.6%	4.8%
Mark A. Smith (8)	1,963,835	14.4%	15.2%
Jon Northrop (9)	329,809	2.5%	2.7%
49			
Jeremy Rowland (10)	220,000	1.7%	1.8%
James Morris (11)	325,000	2.5%	2.7%
George Bloom (12)	322,112	2.4%	2.6%
All executive officers, directors and significant employees as a group (6 persons)	8,201,122	47.0%	49.0%

---

(1) Centerpoint Corporation is currently majority owned by the Company. Under Colorado law, Centerpoint Corporation is not entitled to vote these shares unless otherwise ordered by a court. These shares of common stock may be distributed to the shareholders of Centerpoint Corporation at a future date pursuant to a dividend declared during July 2004. The shares distributed to Bion, if any, will be cancelled immediately upon receipt.

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

(2) Includes 24,517 shares and 2,200,000 shares underlying warrants held directly by Mr. Bassani; 237,224 shares and 500,000 shares underlying warrants held by Bright Capital, Ltd. ("Brightcap") of which Mr. Bassani is the owner; 785,501 shares owned by the Bright Capital Ltd. Defined Benefit Pension Plan of which Mr. Bassani is the beneficiary; 1,055,692 shares held by Chris-Dan, LLC of which Mr. Bassani is owner; 25,000 shares underlying warrants held by Mr. Bassani's wife; and 10,050 shares and 44,382 shares held in IRA accounts of Mr. Bassani and his wife, respectively. Also includes 110,000 shares issuable to Mr. Bassani related to convertible deferred compensation and 48,000 shares owned by Mr. Bassani's daughter, Danielle Bassani. Mr. Bassani has also been granted 250,000 shares of contingent stock bonuses that are not included in this calculation. Mr. Bassani disclaims ownership of 566,000 shares underlying warrants held by The Danielle Christine Bassani Trust, which is separately itemized herein. Mr. Bassani's adult daughter, who lives with him, is the beneficiary of the Danielle Christine Bassani Trust and Mr. Bassani is not one of the trustees of the trust. Mr. Bassani further disclaims beneficial ownership of shares and warrants owned by various other family members, none of whom live with him or are his dependents, and such shares are not included in this calculation.

(3) Represents 1,055,692 shares held directly by Chris-Dan, LLC, which is owned by Dominic Bassani.

(4) Represents 237,224 shares held directly by Bright Capital, Ltd. and 500,000 shares underlying warrants held by Bright Capital, Ltd.; and 785,501 shares owned by the Bright Capital, Ltd. Defined Benefit Pension Plan. Dominic Bassani owns Bright Capital, Ltd. and is the beneficiary of its Defined Benefit Pension Plan.

(5) Represents 785,501 shares held directly by the Bright Capital, Ltd. Defined Benefit Pension Plan. Dominic Bassani is the beneficiary of this Pension Plan.

(6) Includes 433,563 shares held directly by Mr. Orphanos plus 25,500 and 10,000 shares, respectively, underlying warrants and options held directly by Mr. Orphanos; 130,263 shares held jointly with his wife; and 685,707 shares held in an IRA. Not included are 566,000 shares underlying warrants held by the Danielle Christine Bassani Trust, of which Mr. Orphanos is a co-trustee and 1,687,561 common shares owned by certain clients of Mr. Orphanos, over which Mr. Orphanos exercises discretionary authority (which shares include: a) 785,501 shares owned by the Bright Capital Ltd. Defined Benefit Pension Plan of which Mr. Bassani is the beneficiary; b) 24,517 shares held by Mr. Bassani personally; c) 54,432 shares owned by IRAs for Mr. Bassani and/or his wife; and 48,000 shares owned by Danielle Bassani). Mr. Orphanos disclaims beneficial ownership of the shares listed in the preceding sentences because he has no pecuniary interest in the shares.

50

(7) Represents 566,000 shares underlying warrants held by The Danielle Christine Bassani Trust, Anthony Orphanos and Donald Codignotto, trustees and 48,000 shares owned by Danielle Bassani, beneficiary of the trust.

(8) Includes 905,064 shares held directly by Mark A. Smith; 500,000 shares underlying options held directly by Mr. Smith; 325,000 shares underlying warrants held directly by Mr. Smith; 20,834 shares held jointly with his wife; 70,256 shares held by his wife; and 142,681 shares of common stock held by LoTayLingKyur Foundation which is controlled by Mr. Smith. Does not include shares and warrants owned by various family members of which Mr. Smith disclaims beneficial ownership. Mr. Smith is also the President of Centerpoint, although shares owned by Centerpoint are not entitled to a vote while held by Centerpoint.

(9) Includes 108,466 shares held directly by Jon Northrop; 16,464 shares owned by Jon Northrop's wife; 9,265 shares owned jointly by Jon Northrop and his wife; options to purchase 170,000 shares held by Jon Northrop; and 20,730 shares owned by a family trust, 3,513 shares held by the Harley Northrop Family Foundation and 1,371 shares



## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

owned by the Harley Northrop Charitable Remainder UniTrust. Does not include shares owned by the adult children of Jon Northrop.

(10) Mr. Rowland holds 20,000 shares (of which 10,000 are subject to vesting conditions not yet met) and options to purchase 200,000 shares.

(11) Mr. Morris holds 25,000 shares and options to purchase 300,000 shares (all subject to vesting conditions not yet met) Mr. Morris has also been granted 75,000 shares of contingent stock bonus that are not included in this calculation.

(12) Mr. Bloom holds 22,112 shares (20,000 subject to vesting conditions not yet met) and options to purchase 300,000 shares (all subject to vesting conditions not yet met). Mr. Bloom has also been granted 75,000 shares of contingent stock bonus that are not included in this calculation.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Other than the employment/consulting agreements, deferred compensation arrangements and conversions of debt described above in Item 1 Business and Item 11 Executive Compensation, there are no related party transactions except that:

The Company executed a non-cancellable operating lease for office space in New York City effective August 1, 2006 and extending to November 30, 2013. The average monthly rent under the lease is \$15,820. The Company provided the lessor with a letter of credit in the amount of \$128,443 in connection with the lease which reduces over the term of the release. The Company's obligations under the lease are partially guaranteed by Salvatore Zizza, former Chairman of Projects Group. Effective January 1, 2009, Mr. Zizza entered into a Master Sublease with the Company pursuant to which Mr. Zizza became a sublessee and, for a one year initial period, became responsible to 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 and Mr. Zizza has utilized such funds as partial funding of the monthly lease payments. Subsequently, Mr. Zizza exercised his option to continue the Master Sublease for the entire period of the lease. Mr. Zizza fulfilled his obligations under the Master Sublease during the one year initial period and, therefore, he received the funds from the next release from restricted funds securing the Company's letter of credit

51

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 approximately \$57,000 balance of restricted funds securing the letter of credit.

No directors of the Company are considered to be independent directors.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

#### AUDIT FEES

In December 2005, the Company engaged GHP Horwath, P.C. as its independent registered public accounting firm. The aggregate fees billed for each of the last two fiscal years ended June 30, 2009 and June 30, 2010 by GHP Horwath, P.C. for professional services rendered for the audit of the Company's annual financial statements and reviews of interim financial

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

statements included in the Company's quarterly reports on Form 10-Q (and related matters) were \$58,520 and \$61,400, respectively.

### AUDIT RELATED FEES

There were no fees billed by GHP Horwath, P.C. for audit-related fees in each of the last two fiscal years ended June 30, 2009 and June 30, 2010.

### TAX FEES

The aggregate fees billed for tax services rendered by GHP Horwath, P.C. for tax compliance and related services for the two fiscal years ended June 30, 2009 and June 30, 2010 were \$373 and \$24,300, respectively.

### ALL OTHER FEES

None.

### AUDIT COMMITTEE PRE-APPROVAL POLICY

Under provisions of the Sarbanes-Oxley Act of 2002, the Company's principal accountant may not be engaged to provide non-audit services that are prohibited by law or regulation to be provided by it, and the Board of Directors (which serves as the Company's audit committee) must pre-approve the engagement of the Company's principal accountant to provide audit and permissible non-audit services. The Company's Board has not established any policies or procedures other than those required by applicable laws and regulations.

52

## 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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

- agreement. (1)
- 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)
- 53
- 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)
- 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)
- 10.22 Promissory Note and Conversion Agreement between Bion Environmental Technologies, Inc. and Bright Capital, Ltd. related to deferred compensation. (1)

Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

- 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)
- 54
- 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)
  - 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)
  - 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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

- 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)
- 55
- 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)
- 10.59 Agreement between Mark A. Smith and Bion effective January 12, 2009. (13)
- 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)

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

- 10.63 Capitalization Agreement between Bion Companies and Bion PA 1 LLC dated June 30, 2009. (15)
- 10.64 Zizza Notice re Master Sublease Option Exercise (November 20, 2009). (16)
- 10.65 Town of Schroepfel resolution (December 10, 2009). (16)
- 10.66 Articles of Amendment including Statement of Designation and Determination of Preferences of Series C Convertible Preferred Stock. (17)
- 10.67 Extension Agreement with Mark A. Smith. (18)
- 10.68 Agreement with Edward Schafer. (18)
- 21 Subsidiaries of the Registrant. (1)
- 23.1 Consent of GHP Horwath, P.C., Independent Registered Public Accounting Firm - Filed herewith electronically.

56

- 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 8-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.
  - (16) Filed with Form 8-K on December 15, 2009.
  - (17) Filed with December 31, 2009 Form 10-Q on February 9, 2010.
  - (18) Filed with Form 8-K on August 18, 2010.

### (b) FINANCIAL STATEMENT SCHEDULES.

Our consolidated financial statements being filed as part of this Form 10-K are filed on Item 8 of this Form 10-K. 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, 2010 AND 2009

CONTENTS

Consolidated financial statements:

Report of independent registered public accounting firm .....	F-2
Balance sheets .....	F-3
Statements of operations .....	F-4
Statements of changes in equity (deficit) .....	F-5
Statements of cash flows .....	F-6
Notes to consolidated financial statements .....	F-7 - F-27

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2010 and 2009, and the related consolidated statements of operations, changes in 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, 2010 and 2009, and the results of their operations and 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 2 to the consolidated financial statements, during fiscal year 2010, the Company adopted the provisions of a new accounting standard relating to noncontrolling interests.

/S/ GHP HORWATH, P.C.

Denver, Colorado  
September 21, 2010



Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

CONSOLIDATED BALANCE SHEETS

	June 30, 2010	June 30, 2009
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,026,084	\$ 1,695,713
Prepaid rent and expenses	9,228	12,217
Other receivable - affiliate	8,797	8,797
Deposits and other receivables	11,956	11,956
	-----	-----
Total current assets	1,056,065	1,728,683
	-----	-----
Restricted cash (Note 10)	57,315	85,973
Property and equipment, net (Note 4)	889,251	477,229
	-----	-----
Total assets	\$ 2,002,631	\$ 2,291,885
	=====	=====
LIABILITIES AND EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and accrued expenses	\$ 675,024	\$ 834,638
Accrued payable - affiliate (Note 7)	-	41,647
Loans payable - affiliates (Note 5)	-	162,500
Deferred compensation (Note 6)	-	175,000
	-----	-----
Total current liabilities	675,024	1,213,785
	-----	-----
Deferred compensation (Note 6)	165,000	150,000
Deferred rent (Note 10)	69,892	73,232
	-----	-----
Total liabilities	909,916	1,437,017
	-----	-----
Series B Redeemable Convertible Preferred stock, \$.01 par value, 50,000 shares authorized, 28,170 and 21,320 shares issued and outstanding, respectively; liquidation preference of \$2,887,425 and \$2,144,876, respectively	2,521,215	1,867,716
	-----	-----
Deficit (Note 7):		
Bion's stockholders' deficit:		
Series A Preferred stock, \$0.01 par value, 10,000 shares authorized, no shares issued and outstanding	-	-
Series C Convertible Preferred stock, \$0.01 par value, 60,000 shares authorized; 18,000 and nil shares issued and outstanding, respectively; liquidation preference of \$1,839,592	1,605,592	-
Common stock, no par value, 100,000,000 shares authorized, 12,754,830 and 12,126,448 shares issued, respectively; 12,050,521 and 11,422,139 shares outstanding, respectively	-	-
Additional paid-in capital	75,484,099	74,529,507
Accumulated deficit	(78,624,862)	(75,654,145)
	-----	-----
Total Bion's stockholders' deficit	(1,535,171)	(1,124,638)
	-----	-----

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

Noncontrolling interest (Note 3)	106,671	111,790
	-----	-----
Total deficit	(1,428,500)	(1,012,848)
	-----	-----
Total liabilities and deficit	\$ 2,002,631	\$ 2,291,885
	=====	=====

See notes to consolidated financial statements.

F-3

### BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
	-----	-----
Revenue	\$ -	\$ -
	-----	-----
Operating expenses:		
General and administrative (including stock-based compensation (Note 7))	2,777,871	1,959,810
Research and development (including stock-based compensation (Note 7))	194,381	357,331
	-----	-----
Total operating expenses	2,972,252	2,317,141
	-----	-----
Loss from operations	(2,972,252)	(2,317,141)
	-----	-----
Other expense and (income):		
Interest expense	1,515	38,401
Interest income	(12,931)	(1,773)
Forfeiture of deferred compensation	-	(959,184)
Extinguishment of liabilities (Notes 6 and 8)	15,000	(1,826)
Other, net	-	(75,000)
	-----	-----
	3,584	(999,382)
	-----	-----
Net loss	(2,975,836)	(1,317,759)
	-----	-----
Net loss attributable to the noncontrolling interest	5,119	5,902
	-----	-----
Net loss attributable to Bion	(2,970,717)	(1,311,857)
	-----	-----
Dividends on preferred stock	(334,605)	(12,876)
	-----	-----
Net loss applicable to Bion's common stockholders	\$ (3,305,322)	\$ (1,324,733)
	=====	=====
Net loss applicable to Bion's common stockholders per basic common share	\$ (0.28)	\$ (0.12)
	=====	=====
Net loss applicable to Bion's common stockholders per diluted common share	\$ (0.28)	\$ (0.12)
	=====	=====

Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

Weighted-average number of common shares

outstanding,		
Basic	11,833,673	10,684,962
	=====	=====
Diluted	11,833,673	10,684,962
	=====	=====

See notes to consolidated financial statements.

F-4

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)  
YEARS ENDED JUNE 30, 2010 AND 2009

	Bion's Shareholders'					
	Series C Preferred Stock		Common Stock		Additional paid-in capital	Accumulated deficit
	Shares	Amount	Shares	Amount		
Balances, June 30, 2008	-	\$ -	11,070,658	\$ -	\$73,422,195	\$(74,342,288)
Vesting and remeasurement of options for services	-	-	-	-	143,153	-
Issuance of common stock for services	-	-	290,343	-	177,370	-
Issuance of warrants for services	-	-	-	-	180,582	-
Sale of common stock	-	-	446,667	-	380,000	-
Dividends on Series B preferred stock	-	-	-	-	(12,876)	-
Conversion of debt to equity	-	-	318,780	-	239,083	-
Net loss	-	-	-	-	-	(1,311,857)
Balances, June 30, 2009	-	-	12,126,448	-	74,529,507	(75,654,145)
Vesting and remeasurement of options for services	-	-	-	-	405,257	-
Issuance of common stock for services and project construction services	-	-	306,990	-	511,527	-
Issuance of warrants for services	-	-	-	-	104,250	-

Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

Sale of common stock	-	-	8,769	-	13,153	-
Sale of Series C preferred stock, net	18,000	1,566,000	-	-	-	-
Dividends on Series B preferred stock	-	-	-	-	(275,067)	-
Dividends on Series C preferred stock	-	39,592	-	-	(59,538)	-
Conversion of debt to equity	-	-	315,449	-	255,010	-
Cancellation of previously issued common shares	-	-	(2,826)	-	-	-
Net loss	-	-	-	-	-	(2,970,717)
Balances, June 30, 2010	18,000	\$1,605,592	12,754,830	\$ -	\$75,484,099	\$(78,624,862)

See notes to consolidated financial statements.

F-5

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (2,975,836)	\$ (1,317,759)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	16,886	15,454
Accrued interest on convertible notes and debt	16,515	33,069
Stock-based compensation	981,803	493,188
Forfeiture of deferred compensation	-	(959,184)
Decrease in prepaid rent and expenses	2,989	4,830
Increase in deposits and other receivables	-	(8,685)
(Decrease) increase in accounts payable and accrued expenses	(122,766)	266,827
(Decrease) increase in deferred rent	(3,340)	1,367
Increase in deferred compensation	-	516,076
Net cash used in operating activities	(2,083,749)	(954,817)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in restricted cash	28,658	42,470
Purchase of property and equipment	(389,677)	(433,179)
Net cash used in investing activities	(361,019)	(390,709)

Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock	13,153	380,000
Proceeds from sale of Series B preferred stock	595,950	1,854,840
Proceeds from sale of Series C preferred stock	1,566,000	-
Repayment of loans payable - affiliates	(162,500)	-
Payment of Series B preferred dividends	(217,518)	-
Payment of Series C preferred dividends	(19,946)	-
Proceeds from loans payable - affiliates	-	162,500
Proceeds from notes payable - affiliates	-	165,000
	-----	-----
Net cash provided by financing activities	1,775,139	2,562,340
	-----	-----
Net (decrease) increase in cash and cash equivalents	(669,629)	1,216,814
Cash and cash equivalents at beginning of year	1,695,713	478,899
	-----	-----
Cash and cash equivalents at end of year	\$ 1,026,084	\$ 1,695,713
	=====	=====
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	\$ 255,010	\$ 239,083
Issuance of common stock in exchange for project construction services	39,231	-
Series B preferred stock dividends	57,546	-

See notes to consolidated financial statements.

F-6

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2010 AND 2009

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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 (defined below) including renewable energy production.

Bion is now actively pursuing business opportunities in two broad areas: 1) retrofit and environmental remediation of existing CAFOs to reduce nutrient (nitrogen and phosphorus) releases and gaseous emissions (ammonia, greenhouse gases, volatile organic compounds, etc.) in order to clean the air and water in the surrounding areas (as described below) and 2) development of "closed loop" Integrated Projects.

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 the very early development stage regarding a beef-based Integrated Project in New York and is involved in pre-development evaluations regarding opportunities for Integrated Projects in 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.

F-7

### BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

("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 noncontrolling 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")

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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. After substantial unanticipated delays over the summer, fall and winter of 2009 and spring of 2010, on August 12, 2010 the Company received its permit for construction of the Phase I Kreider System. The Company anticipates that initial construction related activities and ordering of equipment will commence within 30 days. The Company anticipates that the initial closing/settlement of the Pennvest Loan will take place within 30-45 days. The Company will submit its initial drawdown/reimbursement request to Pennvest shortly thereafter and anticipates that the initial drawdown/reimbursement from Pennvest pursuant to the Pennvest Loan will be received in the next 60-90 days. Bion is in the process of finalizing its design for the Phase 1 Kreider System. The Pennsylvania Department of Environmental Protection recently re-certified the nutrient credits for this project. It is anticipated that construction will be completed and operations commenced during the spring of 2011.

### 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 revenues and has incurred net losses of approximately \$2,976,000 and \$1,318,000 during the years ended June 30, 2010 and 2009, 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.

During the year ended June 30, 2010, the Company sold 18,000 shares of the Company's Series C Preferred shares at \$100 per share, which resulted net proceeds to the Company of \$1,566,000 after commissions. Through final

F-8

### BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

closing on September 17, 2010, an additional 4,800 shares of Series C Preferred Stock were sold for net proceeds of approximately \$417,600 for total net proceeds of approximately \$643,800 from the sale of 7,400 shares of Series C Preferred Stock in a second offering. The Company has 22,800 shares of Series C Preferred Stock outstanding as of this date.

During the year ended June 30, 2009, the Company completed an offering of the Company's Series B Preferred shares, which resulted in the issuance of 21,320 shares at \$100 per share resulting in net proceeds to the Company of \$1,854,840. During the year ended June 30, 2010, the Company issued an additional 6,850 shares resulting in net proceeds to the Company of \$595,950.

At June 30, 2010, the Company has a working capital surplus and stockholders' deficit of approximately \$381,000 and \$1,535,000, respectively.

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 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

F-9

### BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

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, 2010.

#### 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.



## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 by 100%, since the Company believes that at this time it is more likely than not that the deferred tax asset will not be realized.

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 2005. 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 June 30, 2010, there were no penalties or accrued interest amounts associated with any unrecognized tax benefits, nor was any interest expense recognized during the years ended June 30, 2010 and 2009.

#### 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, 2010 and 2009, 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:

F-10

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2010 AND 2009

	June 30, 2010 -----	June 30, 2009 -----
Warrants	5,347,616	4,490,616
Options	2,270,833	1,995,833
Convertible debt	110,000	388,864
Convertible preferred stock	1,903,611	1,072,438

The following is a reconciliation of the denominators of the basic loss per share computations for the years ended June 30, 2010 and 2009:

Year ended June 30, 2010	Year ended June 30, 2009
-----------------------------	-----------------------------

Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

	-----	-----
Shares issued - beginning of period	12,126,448	11,070,658
Shares held by subsidiaries (Note 7)	(704,309)	(704,309)
	-----	-----
Shares outstanding - beginning of period	11,422,139	10,366,349
Weighted average shares issued during the period	411,534	318,613
	-----	-----
Basic weighted average shares - end of period	11,833,673	10,684,962
	=====	=====

Fair value measurements:

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

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

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

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

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

F-11

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2010 AND 2009

The fair value of cash and cash equivalents and accounts payable approximates their carrying amounts due to their short-term maturities. The fair value of the redeemable preferred stock approximates its carrying value due to the dividends accrued on the preferred stock which are reflected as part of the redemption value.

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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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. 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.

### 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.

### Comprehensive income (loss):

For the years ended June 30, 2010 and 2009, there was no difference between net loss and comprehensive loss.

F-12

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2010 AND 2009

### Revenue recognition:

While the Company has not reported any revenues for the years ended June 30, 2010 and 2009, 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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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

### Codification of US Generally Accepted Accounting Principles:

In June 2009, the Financial Accounting Standards Board ("FASB") approved the FASB Accounting Standards Codification ("the Codification") as the single source of authoritative nongovernmental Generally Accepted Accounting Principles ("GAAP"). All existing accounting standard documents, such as FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and other related literature, excluding guidance from the SEC, have been superseded by the Codification. All other non-grandfathered, non-SEC accounting literature not included in the Codification has become non-authoritative. The Codification did not change GAAP, but instead introduced a new structure that combines all authoritative standards into a comprehensive, topically organized online database. The Codification was effective for interim or annual periods ending after September 15, 2009, and impacts the Company's consolidated financial statements, as all references to authoritative accounting literature are now referenced in accordance with the Codification. There have been no changes to the content of the Company's consolidated financial statements or disclosures as a result of implementing the Codification during the quarter ended September 30, 2009.

As a result of the Company's implementation of the Codification during the year ended June 30, 2010, previous references to new accounting standards and literature are no longer applicable.

### Noncontrolling interests:

On July 1, 2009, the Company adopted the new accounting and reporting standard for ownership interests in subsidiaries held by parties other than the parent ("noncontrolling interest") issued by the FASB. In accordance with the standard, the Company changed the reporting of noncontrolling interests on the face of the consolidated financial statements to separately classify noncontrolling interests within the equity section of the consolidated balance sheets and to separately report the amounts attributable to controlling and noncontrolling interests in the consolidated statements of operations for all periods presented. The standard also requires that the noncontrolling interest continues to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance.

F-13

### BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

### Recent accounting pronouncements:

In June 2009, the FASB issued a new accounting standard which provides guidance that, among other things, requires a qualitative rather than quantitative analysis to determine the primary beneficiary of a variable interest entity ("VIE"), which amends previous guidance for consideration of related party relationships in the determination of the primary beneficiary

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

of a VIE, amends certain guidance for determining whether an entity is a VIE, requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE, and requires enhanced disclosures about an enterprise's involvement with a VIE. The adoption of this guidance (effective for the Company July 1, 2010) is not expected to have a material impact on the Company's consolidated financial statements.

In May 2009, the FASB established general standards for accounting and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The pronouncement required the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, whether that date represents the date the financial statements were issued or were available to be issued. In February 2010, the FASB amended this standard. As a result, the Company is no longer required to disclose in the financial statements that the Company has done so or disclose the date through which subsequent events have been evaluated.

### 3. NONCONTROLLING INTEREST OF CENTERPOINT CORPORATION:

For the years ended June 30, 2010 and 2009, the Company owns a 58.9% interest in Centerpoint.

During the years ended June 30, 2010 and 2009, Centerpoint had losses of approximately \$12,500 and \$14,400, respectively. The noncontrolling interest as of June 30, 2010 was \$106,671.

### 4. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	June 30, 2010	June 30, 2009
	-----	-----
Research and development equipment	\$ -	\$ 305,266
Project construction in progress	845,992	433,179
Leasehold improvements	31,336	31,336
Furniture	28,932	28,932
Computers and office equipment	37,139	31,680
	-----	-----
	943,399	830,393
Less accumulated depreciation	(54,148)	(353,164)
	-----	-----
	\$889,251	\$ 477,229
	=====	=====

Depreciation expense was \$16,886 and \$15,454 for the years ended June 30, 2010 and 2009, respectively.

F-14

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2010 AND 2009

### 5. LOANS PAYABLE - AFFILIATES:

During the year ended June 30, 2009, Dominic Bassani, Vice-President Special

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

Projects and Strategic Planning for the Projects Group, Mark A. Smith, the Company's President, and a major shareholder 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, were non-interest bearing and were repaid in July 2009.

### 6. DEFERRED COMPENSATION:

As of December 31, 2009, the Company owed Brightcap Capital Ltd. ("Brightcap") for services provided by Mr. Bassani, deferred compensation of \$325,000. The Company entered into the Brightcap Agreement (see Note 12), whereby the deferred compensation of Brightcap owed as of December 31, 2008 totaling \$175,000, was made convertible until December 31, 2009 (subsequently extended to January 14, 2010) 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 at the date of the agreement. As the conversion price of \$0.75 per share approximated the fair value of the shares of common stock at the time the conversion agreement was entered into, no beneficial conversion feature existed. Effective January 14, 2010, this obligation was converted into 233,334 shares of the Company's restricted common stock pursuant to its terms. 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 restricted common stock, at Brightcap's option, at a price of \$1.50 per share, the fair value of the shares at the date of the 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. During June 2010, the Company entered into an extension agreement with Brightcap pursuant to which the maturity date and the conversion date of the deferred compensation were extended to July 1, 2011. As consideration for the extension, an additional \$15,000 principal was added to the obligation which as of June 30, 2010 totals \$165,000 and the deferred compensation accrues interest commencing July 1, 2010 at 10% per annum. The debt modification was deemed significant, as the difference in the cash flows is greater than 10%, and resulted in a constructive extinguishment of debt. Accordingly, the Company recorded a loss on extinguishment of debt in the amount of \$15,000, which represented the additional fair value given to Brightcap for extending the maturity date.

### 7. STOCKHOLDERS' EQUITY:

#### Series B Preferred stock:

In 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 are 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 upon each occasion (at least 30 calendar days apart) after a date of six months subsequent to the initial issuance of the Series B

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

YEARS ENDED JUNE 30, 2010 AND 2009

Preferred stock on which the closing price of the Company's common stock has 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 accrues dividends at a rate of 2.5% per quarter (10% per year) and shall be earned and accrued or paid quarterly.

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. Therefore, the Series B Preferred stock has been recorded at its current redemption value as "temporary equity" in the accompanying consolidated balance sheet. Dividends on the Series B Preferred stock are reflected as part of the redemption value with an offset to reduce additional paid-in capital, and are included in the determination of net loss applicable to common stockholders.

During the year ended June 30, 2009, the Company sold 21,320 shares of the Company's Series B Preferred shares at \$100 per share which resulted in net proceeds to the Company of \$1,854,840. During the year ended June 30, 2010, the Company concluded the offering of Series B Preferred stock and issued 6,850 shares of Series B Preferred stock for cash proceeds of \$685,000 (net proceeds of \$595,950 after commissions).

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. The Company declared dividends on October 28, 2009 for the Series B Preferred stockholders with a record date of September 30, 2009 totaling \$63,792, which were paid on November 16, 2009. The Company declared dividends on February 1, 2010 for the Series B Preferred stockholders with a record date of December 31, 2009, totaling \$70,425, which were paid on February 16, 2010. The Company declared dividends on April 27, 2010 for the Series B Preferred stockholders with a record date of March 31, 2010, totaling \$70,425; which were paid on May 17, 2010. The Company declared dividends on July 31, 2010 for the Series B Preferred stockholders with a record date of June 30, 2010, totaling \$70,425; which were paid on August 16, 2010.

Series C Preferred stock:

During December 2009, the Company authorized the issuance of 60,000 shares of Series C Preferred stock, which have a par value of \$0.01 per share and are issuable at a price of \$100 per share. The Series C Preferred stock is convertible at the option of the holder at any time from the date of issuance, 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 \$4.00 (the Conversion Rate), provided the shares have not been redeemed into common shares by the Company at its sole election. A portion (up to 100% as calculated below) of each share of Series C Preferred stock shall be automatically and mandatorily converted into shares of the Company's

F-16

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2010 AND 2009

common stock at the Conversion Rate upon each occasion (at least 30 calendar days apart) after a date of six months subsequent to the initial issuance of the Series C Preferred stock on which the closing price of the Company's common stock has been equal or greater than 150% of the Conversion Rate (initially \$6.00) for twenty consecutive trading days with a reported average daily trading volume of 10,000 shares or more. On each occasion for mandatory conversion as set forth above, a sufficient portion of the outstanding shares of Series C Preferred stock shall be prorata converted so that the holders of the Series C Preferred stock receive an aggregate number of shares of the Company's restricted common stock equal to 7.5 times the average reported daily volume of trading in the Company's publicly traded common stock for the applicable twenty day period and each outstanding share shall thereafter be proportionately reduced in its rights to represent the effect of the partial conversions. The Series C Preferred stock accrues dividends at a rate of 2.5% per quarter (10% per year) and shall be earned and accrued or paid quarterly.

Dividends on the Series C Preferred stock are reflected as part of the redemption value with an offset to reduce additional paid-in capital, and are included in the determination of net loss applicable to common stockholders.

During the year ended June 30, 2010, the Company issued 18,000 shares of Series C Preferred stock for cash proceeds of \$1,800,000 (net proceeds of \$1,566,000 after commissions).

The Company declared dividends on February 1, 2010 for the Series C Preferred stockholders with a record date of December 31, 2009 totaling \$800, which were paid on February 16, 2010. The Company declared dividends on April 27, 2010 for the Series C Preferred stockholders with a record date of March 31, 2010 totaling \$19,146; which were paid on May 17, 2010. The Company declared dividends on July 31, 2010 for the Series C Preferred stockholders with a record date of June 30, 2010 totaling \$39,592; which were paid on August 16, 2010.

Common stock:

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

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



## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 12), the Company issued 200,000 shares of the Company's restricted common stock at \$0.75 per

F-17

### BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

share as prepayment of Mr. Smith's calendar year 2009 base compensation of \$150,000. As of June 30, 2010, the shares are fully vested and the Company has recorded \$150,000 as compensation expense.

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 share 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.

During the year ended June 30, 2010, the Company issued 176,990 shares of the Company's restricted common stock at prices ranging from \$1.01 to \$2.25 per share for consulting services valued at \$397,060, in aggregate, to various consultants.

In July 2009, the Company issued 130,000 common shares of the Company as stock bonuses to certain key employees and a consultant at \$1.01 per share, the approximate market value on the date of grant, totaling \$131,300. The stock bonuses are subject to vesting and during the year ended June 30, 2010, \$75,236 was recorded as compensation expense and \$39,231 was capitalized as project construction in progress as it directly related to construction services provided by employees and consultants.

During September 2009, the Company issued 8,769 shares of the Company's restricted common stock at \$1.50 per share for cash proceeds of \$13,153.

In September 2009, the Company issued 55,530 shares of the Company's restricted common stock in conversion and satisfaction of the Company's accrued payable of \$41,647 to a company controlled by Mr. Salvatore Zizza, the former Chairman of the Projects Group. The shares were issued pursuant to an agreement whereby Mr. Zizza had the option to convert the payable into common shares of the Company at \$0.75 per share at any time prior to the obligation being paid by the Company.

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

In September 2009, the Company issued 24,565 shares of the Company's restricted common stock in satisfaction of accounts payable of \$36,848. The shares were valued at \$1.50 per share which approximated the market value at the time of the issuance.

In October 2009, the Company issued 2,020 shares of the Company's restricted common stock in satisfaction of accrued interest on convertible loans payable from affiliates totaling \$1,515. The shares were valued at \$0.75 per share which approximated the market value at the date of loan payable agreements.

In January 2010, the Company issued 233,334 shares of the Company's restricted common stock in conversion and satisfaction of deferred

F-18

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2010 AND 2009

compensation owed Brightcap totaling \$175,000. The shares were issued pursuant to an agreement whereby Brightcap had the option to convert the deferred compensation into common shares of the Company at \$0.75 per share, the approximate market value of the shares at the time of the agreement (Note 6).

During March 2010, the Company cancelled 2,826 of its previously issued common shares that were deemed undeliverable pursuant to the terms of a 2007 class action litigation settlement.

**Warrants:**

As of June 30, 2010, 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
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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

Class NCC-1	25,000	2.00	May 31, 2014
Class DB-2	600,000	2.50	January 15, 2019
Class MAS 4-1	200,000	2.50	January 15, 2019
Class NH-1	12,000	2.25	February 17, 2013
Class NHJSG 1-3	22,500	2.25	December 31, 2015
Class NHJRG 1-3	22,500	2.25	December 31, 2015
	-----		
	5,347,616		
	=====		

In September 2009, warrants to purchase 600,000 and 200,000 shares of the Company's common stock at \$2.50 per share were issued pursuant to various extension agreements with Mr. Bassani and Mr. Smith, respectively (Note 12). The warrants were determined to have a fair value of \$0.10 per warrant and expire on January 15, 2019. The value placed upon the warrants to purchase common stock at \$2.50 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

F-19

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2010 AND 2009

\$1.50 per share, and the historical valuation and purchases of the Company's warrants. The Company recorded non-cash compensation of \$80,000 related to the warrant issuances.

In February 2010, warrants to purchase 12,000 shares of the Company's common stock at \$2.25 per share were issued pursuant to an agreement with a consultant. The warrants were determined to have a fair value of \$0.25 per warrant and expire on February 17, 2013. The value placed upon the warrants to purchase common stock at \$2.25 per share was determined to be \$0.25 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 and the historical valuation and purchases of the Company's warrants. The Company recorded non-cash compensation of \$3,000 related to the warrant issuances.

From April through June 2010, warrants to purchase 45,000 shares of the Company's common stock at \$2.25 per share were issued pursuant to an agreement with two consultants. The warrants were determined to have a fair value of \$0.25 per warrant and expire on December 31, 2015. The value placed upon the warrants to purchase common stock at \$2.25 per share was determined to be \$0.25 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 and the historical valuation and purchases of the Company's warrants. The Company recorded non-cash compensation of \$11,250 related to the warrant issuances.

The weighted average exercise price for the outstanding warrants is \$2.03, and the weighted average remaining contractual life as of June 30, 2010 is 8

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

years.

Stock options:

The Company's 2006 Consolidated Incentive Plan (the "2006 Plan"), as amended, provides for the issuance of options to purchase up to 6,000,000 shares of the Company's common stock. 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, the Company recorded incremental compensation expense of \$83,428, which was recognized at June 30, 2008 and approximately \$282,000 of additional compensation is being recognized over a weighted average period of approximately 2 years.

The Company recorded compensation expense related to employee stock options of \$313,426 and \$262,092 for the years ended June 30, 2010 and 2009, respectively. The Company granted 275,000 and 75,000 options during the years ended June 30, 2010 and 2009, respectively. The fair value of the options granted during the years ended June 30, 2010 and 2009 were estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

F-20

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2010 AND 2009

	Weighted Average June 30, 2010	Range June 30, 2010	Weighted Average June 30, 2009	Range June 30, 2009
Volatility	99%	97.5%-104%	99%	72%-151%
Dividend yield	-	-	-	-
Risk-free interest rate	1.41%	1.12%-1.70%	1.97%	1.63%-2.64%
Expected term (years)	2.61	2.5-2.88	4	3-6

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, 2010 is as follows:

Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at July 1, 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	-
Granted	275,000	1.63		
Exercised	-	-		
Forfeited	-	-		
Expired	-	-		
Outstanding at June 30, 2010	2,270,833	\$ 2.85	3.4	\$81,250
Exercisable at June 30, 2010	2,183,333	\$ 2.88	3.4	\$68,750

The following table presents information relating to nonvested stock options as of June 30, 2010:

F-21

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2010 AND 2009

	Options	Weighted Average Grant-Date Fair Value
Nonvested at July 1, 2009	203,749	\$ 1.31
Granted	275,000	0.82
Vested	(391,249)	(1.10)
Forfeited	-	-
Nonvested at June 30, 2010	87,500	\$ 0.67

The total fair value of stock options that vested during the years ended June 30, 2010 and 2009 was \$428,700 and \$491,877, respectively. As of June 30, 2010, the Company had \$43,708 of unrecognized compensation cost related to stock options that will be recorded over a weighted average period of less

Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

than one year.

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, 2010, non-employee options represented 595,833 of the 2,270,833 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, 2010. 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 no expense being recorded for the years ended June 30, 2010 and 2009.

The remaining 503,333 non-employee options outstanding include service conditions and have graded vesting schedules through November 30, 2009. As of June 30, 2010, all of the 503,333 options that included service conditions are fully vested. Generally for these agreements, the measurement date of the services occurs when the options vest. 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 November 30, 2009; a dividend yield of zero, risk-free interest rates of 3.21%, volatility of 158%, and an expected life of 8.5 years. Non-cash fair value charges/(credits) of \$91,831 and \$(118,939) were recorded for the years ended June 30, 2010 and 2009, respectively.

Stock-based compensation charges in operating expenses in the Company's financial statements for the years ended June 30, 2010 and 2009 are as follows:

F-22

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2010 AND 2009

	Year ended June 30, 2010	Year ended June 30, 2009
-----		
General and administrative:		
Fair value remeasurement of options with service conditions	\$ 91,831	\$ (184,400)
Fair value of stock bonuses expensed	65,024	-
Fair value of stock options expensed	306,801	209,262
	-----	
Total	\$463,656	\$ 24,862
=====		
Research and development:		
Fair value remeasurement of options with service conditions	\$ -	\$ 65,461
Fair value of stock bonuses expensed	10,211	-
Fair value of stock options expensed	6,625	52,830
	-----	
Total	\$ 16,836	\$ 118,291
=====		

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

### 8. EXTINGUISHMENT OF LIABILITIES:

During the year ended June 30, 2009, the Company recognized other income due to the extinguishment of liabilities of \$1,826 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.

### 9. 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 actual benefit for taxes on loss for the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
	-----	-----
Expected income tax benefit at statutory rate	\$(1,103,000)	\$(486,000)
Permanent differences	5,000	4,000
Expiration of net operating losses	273,000	732,000
Change in valuation allowance	825,000	(250,000)
	-----	-----
Income tax benefit	\$ -	\$ -
	=====	=====

The Company has net operating loss carry-forwards ("NOLs") for tax purposes of approximately \$41,767,000 as of June 30, 2010. These NOLs expire on various dates through 2030.

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

F-23

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2010 AND 2009

The Company's deferred tax assets for the years ended June 30, 2010 and 2009, are estimated as follows:

	2010	2009
	-----	-----
NOLs - noncurrent	\$15,871,000	\$15,118,000
Stock-based compensation - current	364,000	183,000
Deferred compensation - noncurrent	182,000	291,000
	-----	-----
Valuation allowance	16,417,000 (16,417,000)	15,592,000 (15,592,000)
	-----	-----
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.

10. 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, 2010, the Company has reflected \$57,315 as restricted cash related to the secured letter of credit. The Company's obligations under the lease are partially guaranteed by Mr. Salvatore Zizza, a former officer and director of the Company. The Company has entered into three separate agreements to sub-lease approximately 100% of the Company's lease obligation, and the tenants have also agreed to reimburse the Company for leasehold improvements and furnishings. 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 \$15,820. The difference between the straight-line method, and the actual lease payments has resulted in a deferred rent liability of \$69,892 as of June 30, 2010. Rent expense net of contractual and month to month sub-lease rental income was \$19,815 and \$33,083 for the years ended June 30, 2010 and 2009, respectively.

At June 30, 2010, future minimum rental payments due under non-cancelable leases and future minimum rental payments to be received under non-cancelable subleases are:

F-24

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2010 AND 2009

Fiscal year:	Operating lease payments	Sublease rentals	Net operating lease payments
2011	\$198,602	\$198,602	\$ -
2012	212,775	212,775	-
2013	225,756	225,756	-
2014	97,219	97,219	-
Total	\$734,352	\$734,352	\$ -

Effective January 1, 2009, Mr. Zizza entered into a Master Sublease with the Company pursuant to which Mr. Zizza became a sublessee and for a one year initial period, made all payments pursuant to the lease and managed the lease premises. Rental payments from existing sub-tenants are being deposited into



## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

a Company bank account such that Mr. Zizza utilizes those funds towards the monthly lease payment. During November 2009, Mr. Zizza exercised his option to continue the Master Sublease for the entire term of the lease. Mr. Zizza fulfilled his obligations under the Master Sublease during the one-year initial period and in January 2010, he received the funds from the release of the restricted cash securing the Company's letter of credit of \$28,658. Since Mr. Zizza exercised 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 of approximately \$57,000 if he fulfills his obligations pursuant to the Master Sublease.

### 11. 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.

### 12. COMMITMENTS AND CONTINGENCIES:

#### Employment and consulting agreements:

On January 11, 2009, the Company and Mr. Smith entered into the Smith Agreement whereby Mr. Smith agreed to continue to hold positions of Director, President and General Counsel of the Company and its subsidiaries at an annual salary of \$150,000. 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. On September 30, 2009, the Company and Mr. Smith entered into an extension agreement whereby Mr. Smith will continue to hold his current position in the Company through a date no later than December 31, 2010. Commencing January 1, 2010, Mr. Smith is paid a monthly salary of \$16,000 in addition to a cash bonus of \$15,000 paid in January 2010. In addition Mr. Smith was granted a \$20,000 bonus payable in warrants to purchase 200,000 shares of the Company's common stock at a price

F-25

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2010 AND 2009

of \$2.50 per share until January 15, 2019. Effective July 27, 2010 the Company entered into an extension agreement whereby Mr. Smith will continue to hold his current position in the Company through a date no later than December 31, 2011. Commencing September 1, 2010, Mr. Smith is paid a monthly salary of \$19,000 in addition to a cash bonus of \$20,000 to be paid on January 1, 2011. In addition Mr. Smith was granted a \$20,000 bonus payable in warrants to purchase 200,000 shares of the Company's common stock at a price of \$2.00 per share until January 15, 2019.

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

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 in 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 would 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 granted 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 which right was extended to January 14, 2010, on which date the conversion took place (Note 6 and 7). The Brightcap Agreement also extended the maturity date of Mr. Bassani's \$50,000 promissory note to June 30, 2009 and allowed for the conversion of the principal and interest, in whole or in part, at the election of Mr. Bassani, into the Company's restricted common shares at \$0.75 per share. The promissory note was converted on June 30, 2009. On September 30, 2009 the Company entered into an extension agreement with Brightcap pursuant to which Mr. Bassani will provide services to the Company through September 30, 2012 for \$312,000 annually. In conjunction with the extension agreement, Mr. Bassani was granted a \$60,000 bonus payable in warrants to purchase 600,000 shares of the Company's common stock at a price of \$2.50 per share until January 15, 2019. Mr. Bassani was also granted an extension on the conversion date of the \$175,000 deferred compensation from December 31, 2009 until January 14, 2010.

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.

F-26

### BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

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

## Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

prices are reached. As of June 30, 2010, 442,500 shares remain outstanding due to the expiry of 165,000 and 82,500 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.

### Litigation:

The Company is currently not involved in any material litigation.

### 13. SUBSEQUENT EVENTS:

The Company has evaluated events that occurred subsequent to June 30, 2010 for recognition and disclosure in our financial statements and notes to our financial statements.

From July 1, 2010 through September 17, 2010 the Company has issued 52,451 shares of the Company's common shares to various consultants valued at approximately \$99,000.

On August 31, 2010, the board of directors granted 50,000 options that vested on September 1, 2010, with an exercise price of \$2.50 per option and expire on December 31, 2015.

From July 1, 2010 through final closing on September 17, 2010, an additional 4,800 shares of Series C Preferred Stock were sold for net proceeds of approximately \$417,600 for total net proceeds of approximately \$643,800 from the sale 7,400 shares of Series C Preferred Stock in a second offering of Series C Preferred Stock. The Company has 22,800 shares of Series C Preferred Stock outstanding as of this date.

F-27

### SIGNATURES

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

BION ENVIRONMENTAL TECHNOLOGIES, INC.

Dated: September 21, 2010

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

# Edgar Filing: BION ENVIRONMENTAL TECHNOLOGIES INC - Form 10-K

Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this 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	September 21, 2010
/s/ Jon Northrop Jon Northrop	Secretary and Director	September 21, 2010