BION ENVIRONMENTAL TECHNOLOGIES INC
Form 10QSB/A
January 17, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB/A
AMENDMENT NO. 1

[X] Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2002

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. 001-31437

BION ENVIRONMENTAL TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Colorado	84-1176672
(State of incorporation)	(I.R.S. Employer Identification Number)

18 E. 50th Street, 10th Floor
New York, New York 10022
(Address of principal executive offices, including zip code)

(212) 758-6622
(Registrant's telephone number, including area code)

Securities registered under Section 12(b) and or 12(g) of the Exchange Act:

Common Stock, no par value

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. Yes [X] No [ ]

As of November 12, 2002 the issuer had outstanding 5,304,521 shares of common stock. This includes 1,900,000 shares held by a majority-owned subsidiary of the registrant.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

BION ENVIRONMENTAL TECHNOLOGIES, INC.

QUARTERLY REPORT ON FORM 10-QSB

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PART I

Item 1. Financial Statement

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
Unaudited Consolidated Balance Sheet
As of September 30, 2002

ASSETS	
Current assets:	
Cash and cash equivalents	$ 867,375
Accounts receivable, net of allowance for doubtful accounts of $2,000	8,946
Inventory	116,286
Prepaid expenses and other current assets	106,204
Total current assets	1,098,811
Property and equipment, net	243,402
Claims receivable	1,339,154
Other assets	213,455
Total assets	$ 2,894,822
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 411,301
Accrued expenses	57,433
Capital lease obligation	2,804
Total current liabilities	471,538
Deferred compensation	447,177
Total liabilities	918,715
Minority interest	406,041
Commitments and contingencies	
Stockholders' Equity:	
Preferred Stock, $.01 par value, 10,000 shares authorized, -0- shares issued and outstanding	
Common stock, no par value, 100,000,000 shares authorized, 4,208,791 shares issued and 4,117,352 shares outstanding (this does not include 1,095,730 shares held by Centerpoint which will be distributed to Bion and subsequently cancelled)	
Additional paid in capital	59,411,915
Accumulated deficit	(57,021,372)
Treasury stock, at cost, 91,439 shares of common stock	(820,477)
Total stockholders' equity	1,570,066
Total liabilities and stockholders' equity	$ 2,894,822

See notes to consolidated financial statements.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Operations

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001
Revenue:		
Soil sales	$ 46,638	$ 13,003
Cost of soil	195,718	119,090
Gross loss	(149,080)	(106,087)
Expenses:		
General and administrative (excluding $158,447 and $218,231 of non-cash charges for services and compensation, respectively)	637,192	627,778
Research and development	149,862	213,467
Non-cash charges for services and compensation (net of reversal of deferred compensation of $221,545 and $0, respectively	(63,098)	218,231
	723,956	1,059,476
Operating loss	(873,036)	(1,165,563)
Other income and expense:		
Interest expense (including $0 and $1,118,718 of non-cash interest charges, respectively)	(75)	(1,119,214)
Interest income	5,629	9,198
Other expense, net	(16,699)	41,358
	(11,145)	(1,068,658)
Net loss before minority interest	(884,181)	(2,234,221)
Minority interest	35,052	-
Net loss and comprehensive loss	$ (849,129)	$(2,234,221)
Basic and diluted loss per common share:		
Net loss per common share	$ (0.21)	$ (1.71)
Weighted-average number of common shares outstanding, basic and diluted loss per share	4,117,352	1,306,839

See notes to consolidated financial statements

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Cash Flows

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001
Cash flows from operating activities:		
Net loss	$ (849,129)	$ (2,234,221)
Adjustments to reconcile net loss to net cash used in operating activities:		
Minority interest in net loss of subsidiary	(35,052)	-
Depreciation and amortization	20,543	19,640
Loss on disposal of asset	7,443	-
Amortization of debt discount	-	777,213
Issuance of note payable for deferred compensation	150,000	-
Accretion of notes payable for interest expense	-	341,505
Compensation charge from variable options	-	(3,469)
Non-cash charges for equity instruments issued for compensation and services	(213,099)	221,579
Changes in:		
Accounts receivable	8,349	13,673
Note receivable	(985)	15,188
Inventory	(48,646)	-
Prepaid expenses and other current assets	41,795	(14,635)
Deposits and other	(463)	-
Accounts payable	87,364	(33,334)
Accrued liabilities	2,281	10,195
Net cash used in operating activities	(829,599)	(886,666)
Cash flows from investing activities:		
Purchases of property and equipment	(116,152)	-
Net cash used in investing activities	(116,152)	-
Cash flows from financing activities:		
Payments of capital lease obligations	(445)	(5,857)
Net cash used in financing activities	(445)	(5,857)
Net decrease in cash and cash equivalents	(946,196)	(892,523)
Cash and cash equivalents, beginning of period	1,813,571	1,300,398
Cash and cash equivalents, end of period	$ 867,375	$ 407,875
Supplemental disclosure of cash flow information:		
Cash paid for interest during the period	$ 75	$ 495

Supplemental disclosure of non-cash financing activities:

Issuance of stock for convertible bridge note	$ -	$ 112,740
Issuance of stock for note receivable	$ -	$ 70,000

See notes to consolidated financial statements

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
Notes to unaudited consolidated financial statements

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Bion Environmental Technologies, Inc. (the "Company" or "Bion") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. In the opinion of management, such statements include all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of the Company's financial position, results of operations and cash flows at the dates and for the periods indicated. Pursuant to the requirements of the Securities and Exchange Commission applicable to Quarterly Reports on Form 10-QSB, the accompanying financial statements do not include all the disclosures required by GAAP for annual financial statements. While the Company believes that the disclosures presented are adequate to make the information not misleading, these interim consolidated financial statements should be read in conjunction with the audited financial statements and related notes included in the Company's Annual Report on Form 10-KSB for the year ended June 30, 2002. Operating results for the three month periods ended September 30, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2003.

Certain 2001 items have been reclassified to conform to their 2002 presentation.

2. Organization and Nature of Business

Bion Environmental Technologies, Inc. ("Bion" or the "Company") was incorporated in 1987 in the State of Colorado.

Bion is an environmental service company focused on the needs of confined animal feeding operations (CAFOs). Bion is engaged in two main areas of activity: waste stream remediation and organic soil and fertilizer production. Bion's waste remediation service business provides CAFOs (primarily in the swine and dairy industries) with treatment for the animal waste outputs. In this regard, Bion treats their entire waste stream in a manner which cleans and reduces the waste stream thereby mitigating pollution of the air, water (both ground and surface) and soil, while creating value-added organic soil and fertilizer products. Bion's soil and fertilizer products are being used for a variety of applications including school athletic fields, golf courses and home and garden applications.

The Company's Nutrient Management System (NMS) solution is a patented biological and engineering process that treats water, nutrient and air pollution associated with animal waste. The system also provides a use for the waste materials and solids by biologically converting them into environmentally friendly, time-release organic-based solids that are the basis of Bion's organic soil and fertilizer business segment. Bion's BionSoil and Bion Fertilizer product lines contain a unique mix of organic nutrients, bacteria and other microbes that extensive testing has shown produces superior plant growth with reduced leaching of nutrients when compared to traditional chemical fertilizers.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
Notes to unaudited consolidated financial statements (continued)

The unaudited consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company incurred losses totaling $849,129 during the three months ended September 30, 2002 (including non-cash income of $63,098) and has a history of losses which has resulted in an accumulated deficit of $57,021,372 at September 30, 2002.

During the year ended June 30, 2002, through the Company's transactions with Centerpoint Corporation and OAM S.p.A. the Company obtained $4,800,000 in cash. The Company is currently engaged in seeking additional financing to satisfy its current operating requirements.

There can be no assurance that sufficient funds required during the next twelve months or thereafter will be generated from operations or that 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.

We have a stockholders' equity of $1,570,066 an accumulated deficit of $57,021,372 limited current revenues and substantial current operating losses. Our operations are not currently profitable; therefore, readers are further cautioned that our continued existence is uncertain if we are not successful in obtaining outside funding in an amount sufficient for us to meet our operating expenses at our current level. Management is currently engaged in seeking additional capital to fund operations until Bion system and BionSoil sales are sufficient to fund operations.

There is 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 asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

Effective July 8, 2002, the Company completed a 1 for 10 reverse stock split (the "stock split"). The stock split has been retroactively reflected in the Company's unaudited consolidated balance sheet, unaudited consolidated statement of operations and notes to unaudited consolidated financial statements.

3. Significant Accounting Policies

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly- and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
Notes to unaudited consolidated financial statements (continued)

Loss per share of common stock:

Basic earnings per share includes no dilution and is computed by dividing income or loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity, similar to fully diluted earnings per share. In loss periods, dilutive common equivalent shares are excluded, as the effect would be anti-dilutive. Therefore, basic and diluted earnings per share are the same for all periods presented.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Revenue Recognition:

Bionsoil sales are recognized upon delivery of soil to customer and all risk and rewards of ownership pass to the buyer at this time.

Revenues from fixed-price system development and construction projects are recognized on the percentage-of-completion method. For contracts accounted for under the percentage-of-completion method, the amount of revenue recognized is the percentage of the total contract price that the cost expended to date bears to the anticipated final total cost based upon current estimates of the cost to complete the contract. Contract cost includes all labor and benefits, materials unique to or installed in the project, subcontract costs an allocations of indirect costs. General and administrative costs are charged to expense. Provisions for estimated losses or uncompleted contracts are provided when determined, regardless of the completion percentage. As contracts can extend over one or more accounting periods, revisions in costs and earnings estimated during the course of the work are reflected during the accounting period in which the facts that require such revisions become know. Project managers make assumptions concerning cost estimates for labor hours, consultant hours and other project changes in customer needs as projects progress, it is at least reasonably possible that completion costs for some uncompleted projects may be further revised in the near term, and that such revisions may be material.

Stock-based compensation:

The Company accounts for its stock-based compensation arrangements with its employees in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 established a fair-value-based method of accounting for stock-based compensation plans. Stock-based awards to nonemployees are accounted for at fair value in accordance with the provisions of SFAS 123.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
Notes to unaudited consolidated financial statements (continued)

Patents:

Patents are recorded at costs of $54,946 less accumulated amortization of $25,617 for a net amount of $29,329, which is included in other assets. Amortization is calculated on a straight-line basis over a period of the estimated economic life or legal life of 17 years. Amortization expense for the period ended September 30, 2002 and 2001 was $808 for each period.

4. Stockholders' Equity

Reverse stock split:

Effective July 8, 2002, the Company completed a one-for-ten reverse stock split of its outstanding shares of common stock. The accompanying unaudited consolidated financial statements have been retroactively adjusted to reflect the reverse stock split.

5. Commitments and Contingencies

Claims contingency:

On July 22, 2002, Thomas Keith Barefoot ("Barefoot"), doing business as Quin Deca Farm ("Quin Deca"), an unaffiliated party, filed a complaint against the Company in the Superior Court of the County of Harnett in the State of North Carolina regarding the Company's first generation Bion NMS System on Quin Deca Farm and the harvesting of BionSoil. The complaint includes breach of contract claims asserting that the Company abandoned the NMS system on Quin Deca Farm and the failure of the Company to harvest BionSoil. The second claim is for fraud regarding misrepresentation of the state of the technology of the first generation NMS. The third claim is for unfair and deceptive trade practices for misrepresentation of the state of the technology of the NMS System. The fourth claim is for negligent misrepresentation made by Bion in connection with the work it performed and its suitability for the intended purpose. The fifth claim is for equity/specific performance in that Bion left Quin Deca with an economically and technically deficient waste management system that cannot continue to be used without adequate and alternative methods of waste removal. Quin Deca is seeking $30,000 in damages, $10,000 in punitive damages, to have its damages trebled, reasonable attorney fees and principles of equity requiring Bion to install its second generation Bion NMS system. The Company does not believe that the ultimate resolution of this litigation will have a material adverse effect on the Company, its operations or its financial condition.

On May 6, 2002, Arab Commerce Bank Ltd. ("ACB"), an unaffiliated party, filed a complaint against the Company in the Supreme Court of the State of New York regarding $100,000 of the Company's convertible bridge notes ("Notes") that were issued to ACB in March of 2000. The complaint includes breach of contract claim asserting that the Company owes ACB $265,400 plus interest or $121,028 including interest based on ACB's interpretation of the terms of the Notes and subsequent amendments. Effective June 30, 2001, the Company issued ACB 5,034 shares of common stock on conversion in full payment of the Notes based on the Company's interpretation of the Notes, as amended. The Company has filed an answer to the complaint denying the allegations. The Company does not believe that the ultimate resolution of this litigation will have a material adverse effect on the Company, its operations or its financial condition.

Potential dilution from a subsequent equity financing:

On January 10, 2002, the Company entered into a subscription agreement with Centerpoint Corporation ("Centerpoint") and a purchase agreement with OAM S.p.A. ("OAM") whereby the Company issued, in aggregate, 2,000,000 shares of its common stock at $7.50. Under the terms of these agreements, additional shares may be issued to Centerpoint and OAM if the Company raises equity at a price less than $7.50 per share until the cumulative investment in the Company, from unaffiliated third parties, from the date of this transaction, equals $5 million. The number of additional shares to be issued would be determined by calculating the additional number of shares Centerpoint and OAM would have received if the transactions were consummated at the price per share of the subsequent equity financing.

In addition, if the Company raises equity at a price less than $7.50 per share, the Company may be required to issue additional shares to former note holders as if the $14,256,779 notes that were converted into 1,900,911 shares of our common stock subsequent to the transactions with Centerpoint and OAM, were converted at the price per share of the subsequent equity financing. In addition, the exercise price for 17,596 warrants may be decreased to the price per share of the subsequent equity financing and the exercise prices for 195,174 warrants may be decreased to 80% of the price per share of the subsequent equity financing. Also, in the event of a subsequent equity financing below $7.50, additional warrants will be issued on 1,037,343 warrants currently outstanding to increase these warrants to reflect 20% of the fully diluted shares outstanding as of January 15, 2002, after giving effect to the above adjustments. These warrants will also have their exercise price lowered to the price per share of the subsequent equity financing.

6. Related Party Transactions

On July 1, 2002, the D2 returned to the Company 2,874 shares of the Company's common stock that was issued as part of the consulting fee to D2 paid to the Trust Under Deferred Compensation Plan for D2CO, LLC (the "Trust") for the Benefit of D2. The shares were subsequently cancelled.

The Company and D2 orally agreed during January 2002, that in the event the average price per common share is below $7.50 for any quarter in which consulting fees are to be paid to the Trust, Bion will issue a convertible bridge note in lieu of the stock payment. The agreement is to remain in place during the "Adjustment Period" noted in the Centerpoint and OAM Agreements. The convertible note is recorded as deferred compensation upon consolidation

Notes to unaudited consolidated financial statements (continued)

of the Trust. The Company has restated its September 30, 2002 consolidated financial statements to reflect the consolidation of the Trust. The more significant effects of the restatement were to reduce consolidated net loss and consolidated stockholders equity at September 30, 2002 by $221,545 and $297,177, respectively.

On September 30, 2002, the Company issued a bridge note for the D2 management fee to be paid to the Trust for the three months ended September 30, 2002. The convertible bridge note was issued having an amount of $150,000 and pays interest at 6% per annum, payable in cash or in shares of the Company's common stock. The convertible bridge note is convertible into shares of common stock in whole or in part at the time of the Company's next equity financing, at the price of the next equity financing, at the election of the holder.

During the three months ended September 30, 2001, 8,099 shares were issued for $125,000 of management fees.

7. Business Segment Information

The Company operates in three business segments as follows:

Systems: The Company designs, markets, installs and manages waste, wastewater and storm water systems, primarily in the agricultural and food processing industries.

Soil: The Company produces and markets BionSoil products such as organic fertilizers, potting soils and soil amendments which are produced from the nutrient rich Bion Solids harvested from agricultural systems installed on large dairy and hog farms.

Other: Contains the operating results of Centerpoint in which the Company's owns 57.6%. Centerpoint currently does not have any business operations other than general and administrative.

The Company's reportable operating segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities. The accounting policies of the operating segments are the same as those described in the summary of accounting policies. The Company evaluates performance based upon several factors, of which the primary financial measure is segment operating income.

The following table summarizes information about operations and long-lived assets as of and for the three months ended September 30, 2002 and 2001:

	Systems	Soil	Other	Total
Three Months Ended September 30, 2002				

Revenues	$ -	$ 46,638	$ -	$ 46,638
Operating loss	$ (485,109)	$ (373,797)	$(14,130)	$ (873,036)
Other income/(expense), net	$ 32,991	$ 24,443	$(68,579)	$ (11,145)
Minority interest	$ -	$ -	$ 35,052	$ 35,052
Net Loss	$ (452,118)	$ (349,354)	$(47,657)	$ (849,129)
Supplemental segment information:				
Amortization and depreciation	$ 9,144	$ 11,399	$ -	$ 20,543
As of September 30, 2002				
Property and Equipment, net	$ 61,311	$ 182,091	$ -	$ 243,402
Total Assets	$1,315,881	$1,538,396	$ 40,545	$ 2,894,822

	Systems	Soil	Other	Total
Three Months Ended September 30, 2001				
Revenues	$ -	$ 13,003	$ -	$ 13,003
Operating loss	$ (719,847)	$ (445,716)	$ -	$(1,165,563)
Other income/(expense), net	$ (531,253)	$ (537,405)	$ -	$(1,068,658)
Minority interest	$ -	$ -	$ -	$ -
Net Loss	$(1,251,100)	$ (983,121)	$ -	$(2,234,221)
Supplemental segment information:				
Amortization and depreciation	$ 7,630	$ 12,010	$ -	$ 19,640
As of September 30, 2001				
Property and Equipment, net	$ 78,587	$ 85,431	$ -	$ 164,018
Total Assets	$ 418,244	$ 408,027	$ -	$ 829,271

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Statements made in this Form 10-QSB that are not historical or current facts are "forward-looking statements" within the meaning of section 27A of the Securities Act of 1933, as amended (the "Securities Act") and section 21E of the Securities Exchange Act of 1934, as amended. 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. Bion intends that such forward-looking statements be subject to the safe harbors for such statements. 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 approval in the United 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 and soil, or possible delays in Bion's 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 should be read in conjunction with our consolidated financial statements and accompanying notes.

Overview

Bion Environmental Technologies, Inc. provides waste management solutions to the agricultural industry, focusing on livestock waste from confined animal feeding operations ("CAFOs"), such as large dairy and hog farms. We are currently engaged in two main areas of activity:

* waste stream remediation and reduction of atmospheric emissions and
* organic soil and fertilizer production.

Our waste remediation and reduction of atmospheric emissions service business provides CAFOs (primarily in the swine and dairy industries) with treatment for the animal waste outputs. In this regard, we microbiologically treat their entire waste stream, reducing air emissions and nutrient discharges, while creating value-added organic soil and fertilizer products. Bion's soil and fertilizer products are being used for a variety of topdressing applications including school athletic fields, golf courses and home and garden applications.

Our Nutrient Management System (NMS) is a patented biological and engineering process that treats water, nutrient and air pollution associated with animal waste. The system also provides a use for the waste materials and solids by biologically converting them into environmentally friendly, time-release organic-based solids that are the basis of our organic soil and fertilizer business segment. Our BionSoil and Bion Fertilizer product lines contain a unique mix of organic nutrients, bacteria and other microbes that extensive testing has shown produces superior plant growth with reduced leaching of nutrients when compared to traditional chemical fertilizers.

We have been conducting business since 1989. Our original systems were wastewater treatment systems for dairy farms and food processing plants. The basic design was modified in late 1994 to create an NMS that produces organic soil products as a by-product of remediation of the waste stream when installed on large dairies or swine farms. Through June 2000, we sold and subsequently installed, in the aggregate, 32 of these first generation systems in 7 states, of which 23 are still in operation through June 2000. There are presently 14 first generation Bion NMS soil production system installations operating in 4 states on 8 dairy farms and 6 hog farms.

We also have an ongoing research program related to our BionSoil and Bion Fertilizer product lines. This research and development includes work related to harvest and processing, blending of specialty product mixes for specific market segments and tests of the effectiveness of BionSoil and Bion Fertilizer blends in a number of plants in a variety of growing environments.

The past two years have been transitional years as to Bion's sales and marketing efforts. As the development program described above moved forward during the 2001 and 2002 fiscal years, our focus shifted from sales of first generation systems to pre-marketing the system capabilities and the economics of our second generation NMS. We have recently initiated marketing Bion's second generation system and anticipate our first sales during the second half of calendar 2002. In addition, Bion has begun marketing various upgrade capabilities from its second generation system to its existing base of first generation installations. The nutrient management capabilities of this new generation of systems will help break one of the major barriers facing those portions of the dairy and protein growing businesses in the U.S. which desire to expand. Our second generation system will allow businesses in these markets to meet ever stricter environmental standards for larger farms and raise more animals on less land while meeting or exceeding all requirements to protect the environment.

Critical Accounting Policies and Significant Use of Estimates in Financial Statements

The Securities and Exchange Commission ("SEC") recently issued disclosure guidance for "critical accounting policies." The SEC defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The following list of critical accounting policies is not intended to be a comprehensive list of all of our accounting policies. Our significant accounting policies are more fully described in Note 3 to the consolidated financial statements included in this Quarterly Report on Form 10-QSB and in Note 2 to the consolidated financial statements included in our Annual Report on Form 10-KSB. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. We have identified the following to be critical accounting policies of the Company:

Revenue recognition: Revenues from fixed-price system development and construction projects are recognized on the percentage-of-completion method. For contracts accounted for under the percentage-of-completion method, the amount of revenue recognized is the percentage of the total contract price that the costs expended to date bear to the anticipated final total cost based upon current estimates of the cost to complete the contract. Contract costs include all labor and benefits, materials unique to or installed in the project, subcontract costs and allocations of indirect costs. General and administrative costs are charged to expense. Provisions for estimated losses on uncompleted contracts are provided when determined, regardless of the completion percentage. As contracts can extend over one or more accounting periods, revisions in costs and earnings estimated during the course of the work are reflected during the accounting period in which the facts that require such revisions become known. Project managers make assumptions concerning cost estimates for labor hours, consultant hours and other project costs. Due to uncertainties inherent in the estimation process and potential changes in customer needs as projects progress, it is at least reasonably possible that completion costs for some uncompleted projects may be further revised in the near term, and that such revisions may be material.

Revenue from the sale of BionSoil products and associated fees are recognized upon delivery to customer, as the Company has no continuing obligations.

Stock-based compensation: The Company accounts for its stock-based compensation arrangements with its employees in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 established a fair-value-based method of accounting for stock-based compensation plans. Stock-based awards to nonemployees are accounted for at fair value in accordance with the provisions of SFAS 123.

Income taxes: Deferred income taxes are determined by applying enacted statutory rates in effect at the balance sheet date to the differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. A valuation allowance is provided based on the weight of available evidence, if it is considered more likely than not that some portion, or all, of the deferred tax assets will not be realized.

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Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Results of Operations - Comparison of Three Months Ended September 30, 2002 with Three Months Ended September 30, 2001

We recorded $47,000 of BionSoil sales during the three months ended September 30, 2002 ("2003 Quarter"). This compares to BionSoil sales of $13,000 for the three months ended September 30, 2001 ("2002 Quarter"). The amounts remained approximately the same due to our concentration on research and development of our second generation system in the 2002 Quarter and the early phase of our transition to commercial production in the 2003 Quarter, as well as further BionSoil testing and analysis. Cost of soil was $196,000 for the 2003 Quarter and $119,000 for the 2002 Quarter. The increase in cost of goods sold was proportionately higher than the increase in sales due to the fact that more soil was produced and sold at prices below cost to help gain market acceptance. We believe that this trend will reverse as we enter the commercial phase of system sales and revenues will increase at a higher rate.

General and administrative expenses increased to $637,000 for the 2003 Quarter from $628,000 for the 2002 Quarter. The increase is primarily attributable to an increase in legal and licensing fees offset by a decrease in salaries.

Research and development costs decreased by $64,000 during the 2003 Quarter. This decrease is due to the higher costs in the 2002 quarter from the construction of the second generation prototype system built at Dreammaker Dairy. No such prototype was in construction during the 2003 quarter.

Non-cash expenses for services and compensation decreased to ($63,000) during the 2003 Quarter from $218,000 for the 2002 Quarter. The decrease is due to a reduction in amortization expense for the value of options previously issued to various individuals and income from deferred compensation as a result of the decrease in value of our common stock in the Trust.

Interest expense decreased to $75 for the 2003 Quarter from $1,119,000 for the 2002 Quarter. The decrease was due to the conversion of all the Company's outstanding debt other than trade payables to common stock in January 2002.

We did not record income tax expense during the years ended June 30, 2002 and 2001, as a result of our net losses. A valuation allowance of $16,179,000 at September 30, 2002, was established because of the uncertainty that the deferred tax asset will be realized.

At September 30, 2002, we had net operating loss carryforwards of approximately $33,513,000, with expirations through 2022. The utilization of a portion of the loss carryforwards may be limited under Section 382 of the Internal Revenue Code.

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The net loss and comprehensive loss decreased $1,385,000 (62%) in the 2003 Quarter compared to the 2002 Quarter. The decrease primarily related to a decrease of $1,119,000 of non-cash interest expense and income from deferred compensation of $221,545 as a result of the decrease in value of our common stock in the Trust.

Basic and diluted loss per common share decreased by $1.50, from $1.71 to $0.21. The decrease in the loss per share is attributable to the increase in the amount of shares outstanding due to the conversion of all our debt, other than trade payables, to common stock and the decrease in interest expense.

Seasonality

Bion's installation capability is restricted in cold weather climates to approximately eight months per year. However, when weather conditions limit construction activity in southern market areas, projects in northern markets can proceed, and when northern area weather is inappropriate, southern projects can proceed. BionSoil harvests on the existing installed base is semi-annual and is timed for spring and fall, with harvested soils being available for sale during the next spring or fall. BionSoil and Bion Fertilizer product sales are expected to exhibit a somewhat seasonal sales pattern with emphasis on spring, summer and fall sales.

Liquidity and Capital Resources

Our principal sources of liquidity, which consist of cash and cash equivalents, are $867,000 as of September 30, 2002. We believe we will not generate sufficient operating cash flow to meet our needs without additional external financing during fiscal 2003. There can be no assurances that any financing will be available or that the terms will be acceptable to us, or that any financing will be consummated. Any failure on our part to do so will have a material adverse impact on us and may cause us to cease operations.

We were successful during the year ended June 30, 2001 in raising working capital through the sale of warrants and convertible debt. During the year ended June 30, 2001 we raised $2,527,000 in a private placement in the form of convertible bridge notes. In addition, Southview, Inc., a related party, had advanced the Company funds totaling $518,000 as of June 30, 2001. During the year ended June 30, 2002 we raised approximately $8,500,000 of working capital as partial consideration for the issuance of the Company's common stock to Centerpoint (less cash of $3,700,000 used as partial consideration to purchase 57.7% of the outstanding shares of Centerpoint) through our transactions with Centerpoint.

All outstanding convertible debt of the Company was converted into shares of the Company's common stock on January 15, 2002 due to the Centerpoint transaction based upon agreed terms.

The level of funding required to accomplish our objectives is ultimately dependent on the success of our research and development efforts, which at this time is unknown. Currently, we estimate that no less than approximately $5,000,000 will be required during the year ending June 30, 2003. We anticipate spending $1,300,000 on research and development efforts and the balance on compensation and general business overhead.

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Going Concern

In connection with their report on our Consolidated Financial Statements as of and for the year ended June 30, 2002, BDO Seidman, LLP, our independent certified public accountants, expressed substantial doubt about our ability to continue as a going concern because of recurring net losses and negative cash flow from operations.

We have stockholders' equity of $1,570,000 a cumulative deficit of $57,021,372 limited current revenues and substantial current operating losses. Our operations are not currently profitable; therefore, readers are further cautioned that our continued existence is uncertain if we are not successful in obtaining outside funding in an amount sufficient for us to meet our operating expenses at our current level. Management is currently engaged in seeking additional capital to fund operations until Bion system and BionSoil sales are sufficient to fund operations.

Consolidated Working Capital

Consolidated working capital increased to $627,000 at September 30, 2002 from a negative $8,728,000 at September 30, 2001. This increase is primarily due to the issuance of common stock to Centerpoint for partial consideration of $8,500,000, reduction our current debt of $8,100,000 as a result of the conversion of this amount of debt into 1,312,094 shares of the Company's common stock. These increases were offset by cash of $3,700,000 paid for the purchase of 57.7% of the outstanding shares of Centerpoint and continued operating losses since the 2002 Quarter of $3,424,000 not including non cash charges for services and compensation, non cash interest expenses and depreciation and amortization.

Analysis of Cash Flows

Cash used in operating activities decreased slightly to $830,000 in the 2003 Quarter from $887,000 in the 2002 Quarter. The decrease is primarily the result of a decrease in operating losses in research and development.

Cash used in investing activities increased to $116,000 in the 2003 Quarter compared to $0 cash used in investing activities in the 2002 Quarter. The $116,000 increase is the result of purchases made in the 2003 Quarter for property and equipment.

Cash used in financing activities decreased to $0 in the 2003 Quarter compared to $6,000 of cash used in financing activities in the 2002 Quarter. The decrease is primarily the result of the pay down of capital leases.

We currently have no commitments for material capital expenditures.

Recent Accounting Pronouncements

In July 2001, the FASB issued Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), which supersedes APB Opinion No. 16.

SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The elimination of the pooling-of-interests method is effective for transactions initiated after June 30, 2001. The remaining provisions of SFAS 141 will be effective for transactions accounted for using the purchase method that are completed after June 30, 2001. The adoption of SFAS No. 141 did not have an effect on our financial condition or the results of operations.

In July 2001, the FASB also issued Statement of Financial Accounting Standards No. 142, "Goodwill and Intangible Assets," ("SFAS 142"), which supersedes APB Opinion No. 17. SFAS 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life and addresses the impairment testing and recognition for goodwill and intangible assets. SFAS 142 will apply to goodwill and intangible assets arising from transactions completed before and after the statement's effective date. SFAS 142 is effective for fiscal 2002. The adoption of SFAS No. 142 will not have an effect on our financial condition or the results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment of Disposal of Long-Lived Assets. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount of fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not occurred. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, is to be applied prospectively. The Company is currently evaluating the potential impact of SFAS No. 144 on its results of operations and financial position.

In July 2002, the FASB issued SFAS No. 146, Accounting for Restructuring Costs. SFAS No. 146 applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts, and relocating plant facilities or personnel. Under SFAS No. 146, a company will record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. SFAS No. 146 will require a company to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit activity is initiated and in any subsequent period until the activity is completed. SFAS No. 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002 with earlier adoption encouraged. Under SFAS No. 146, a company may not restate its previously issued financial statements and the new Statement grandfathers the accounting for liabilities that a company had previously recorded under Emerging Issues task Force Issue 94-3. The Company is currently evaluating the potential impact of SFAS No. 144 on its results of operations and financial position.

Item 3. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly report, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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PART II

Item 1. Legal Proceedings

On July 22, 2002, Thomas Keith Barefoot ("Barefoot"), doing business as Quin Deca Farm ("Quin Deca"), an unaffiliated party, filed a complaint against the Company in the Superior Court of the County of Harnett in the State of North Carolina regarding the Company's first generation Bion NMS System on Quin Deca Farm and the harvesting of BionSoil. The complaint includes breach of contract claims asserting that the Company abandoned the NMS system on Quin Deca Farm and the failure of the Company to harvest BionSoil. The second claim is for fraud regarding misrepresentation of the state of the technology of the first generation NMS. The third claim is for unfair and deceptive trade practices for misrepresentation of the state of the technology of the NMS System. The fourth claim is for negligent misrepresentation made by Bion in connection with the work it performed and its suitability for the intended purpose. The fifth claim is for equity/specific performance in that Bion left Quin Deca with an economically and technically deficient waste management system that cannot continue to be used without adequate and alternative methods of waste removal. Quin Deca is seeking $30,000 in damages, $10,000 in punitive damages, to have its damages trebled, reasonable attorney fees and principles of equity requiring Bion to install its second generation Bion NMS system. The Company does not believe that the ultimate resolution of this litigation will have a material adverse effect on the Company, its operations or its financial condition.

Item 2. Changes in Securities

On September 30, 2002, the Company issued a bridge note for the D2 management fee to be paid to the Trust Under Deferred Compensation Plan for D2CO, LLC ("Trust") for the three months ended September 30, 2002. The convertible bridge note was issued having an amount of $150,000 and pays interest at 6% per annum, payable in cash or in shares of the Company's common stock. The convertible bridge note is convertible into shares of common stock in whole or in part at the time of the Company's next equity financing, at the price of the next equity financing, at the election of the holder. The securities described in this section were issued by Bion in a transaction not involving a public offering. The Trust is a sophisticated investor associated with a Director of the Company and had access to complete information concerning the Company. The Trust made representations that it was an "accredited" investor who was receiving the securities with investment intent and not with the intent to distribute the securities. The issuance of the securities was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits and Reports on Form 8-K

The following documents are filed as exhibits to this Form 10-QSB, including those exhibits incorporated in this Form 10-QSB by reference to a prior filing of Bion under the Securities Act or the Exchange Act as indicated in parenthesis:

Exhibit No.	Description
99.1	Certification by David J. Mitchell pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification by Lawrence R. Danziger pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Reports on Form 8-K

None.

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SIGNATURES

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

Date: January 17, 2003

BION ENVIRONMENTAL TECHNOLOGIES, INC.

by: /s/ David J. Mitchell

David J. Mitchell
Chief Executive Officer

by: /s/ Lawrence R. Danziger

Lawrence R. Danziger
Chief Financial Officer

CERTIFICATIONS PURSUANT TO RULE 13a-14 AND 15d-14 UNDER
THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, David J. Mitchell, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Bion Environmental Technologies, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 17, 2003 /s/ David J. Mitchell

Name: David J. Mitchell
Title: Principal Executive Officer

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CERTIFICATIONS PURSUANT TO RULE 13a-14 AND 15d-14 UNDER
THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Lawrence R. Danziger, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Bion Environmental Technologies, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 17, 2003

/s/ Lawrence Danziger

Name: Lawrence Danziger
Title: Principal Financial Officer