BION ENVIRONMENTAL TECHNOLOGIES INC
Form 10-Q
February 07, 2019
U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2018

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

For the transition period from _______ to _________

Commission File No. 000-19333

Bion Environmental Technologies, Inc.
(Name of registrant in its charter)

Colorado	84-1176672
(State or other jurisdiction of incorporation or formation)	(I.R.S. employer identification number)

Box 566 / 1774 Summitview Way
Crestone, Colorado 81131
(Address of principal executive offices)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer	Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Emerging growth company	Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. On February 1, 2019, there were 27,524,289 Common Shares issued and 26,819,980 Common Shares outstanding.

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BION ENVIRONMENTAL TECHNOLOGIES, INC.

FORM 10-Q

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FORWARD-LOOKING STATEMENTS

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

PART I – FINANCIAL INFORMATION
BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2018 (unaudited)	June 30, 2018
ASSETS		
Current assets:		
Cash	$42,321	$22,013
Prepaid expenses	1,608	7,474
Deposits and other receivables	1,000	1,000
Total current assets	44,929	30,487
Property and equipment, net (Note 3)	1,711	1,448
Total assets	$46,640	$31,935
LIABILITIES AND EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	$643,707	$719,633
Series B Redeemable Convertible Preferred stock, $0.01 par value, 50,000 shares authorized; 200 shares issued and outstanding, liquidation preference of $35,000 and $34,000, respectively (Note 7)	32,400	31,400
Deferred compensation (Note 4)	698,766	421,641
Loan payable and accrued interest (Note 5)	9,160,313	9,028,983
Total current liabilities	10,535,186	10,201,657
Convertible notes payable - affiliates (Note 6)	3,588,130	3,525,216
Total liabilities	14,123,316	13,726,873
Deficit:		
Bion's stockholders' equity (deficit):		
Series A Preferred stock, $0.01 par value, 50,000 shares authorized, no shares issued and outstanding	-	-
Series C Convertible Preferred stock, $0.01 par value, 60,000 shares authorized; no shares issued and outstanding	-	-
Common stock, no par value, 100,000,000 shares authorized, 27,121,371 and 25,939,892 shares issued, respectively; 26,417,062 and 25,235,583 shares outstanding, respectively	-	-
Additional paid-in capital	109,507,489	108,117,330
Subscription receivable - affiliates (Note 7)	(504,650)	(174,650)
Accumulated deficit	(123,130,161)	(121,691,956)
Total Bion’s stockholders’ deficit	(14,127,322)	(13,749,276)

Noncontrolling interest	50,646	54,338
Total deficit	(14,076,676)	(13,694,938)
Total liabilities and deficit	$46,640	$31,935

See notes to consolidated financial statements
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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE AND SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017
(UNAUDITED)

	Three months ended December 31, 2018	Three months ended December 31, 2017	Six months ended December 31, 2018	Six months ended December 31, 2017
Revenue	$-	$-	$-	$-
Operating expenses:				
General and administrative (including stock-based compensation (Note 7))	289,599	808,576	967,489	1,120,693
Depreciation	259	436	695	872
Research and development (including stock-based compensation (Note 7))	114,192	338,755	283,913	445,501
Total operating expenses	404,050	1,147,767	1,252,097	1,567,066
Loss from operations	(404,050)	(1,147,767)	(1,252,097)	(1,567,066)
Other expense (income):				
Gain on extinguishment of liabilities	-	(718,580)	-	(718,580)
Interest expense	97,304	93,662	189,800	192,101
Total other expense (income)	97,304	(624,918)	189,800	(526,479)
Net loss	(501,354)	(522,849)	(1,441,897)	(1,040,587)
Net loss attributable to the noncontrolling interest	523	507	3,692	1,014
Net loss applicable to Bion's common stockholders	$(500,831)	$(522,342)	$(1,438,205)	$(1,039,573)
Net loss applicable to Bion's common stockholders per basic and diluted common share	$(0.02)	$(0.02)	$(0.06)	$(0.04)
Weighted-average number of common shares outstanding:				
Basic and diluted	26,382,778	24,233,123	26,021,254	24,150,108

See notes to consolidated financial statements

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
SIX MONTHS ENDED DECEMBER 31, 2018
(UNAUDITED)

	Bion's Shareholders' Series A Preferred Stock		Series C Preferred Stock		Common Stock		Additional paid-in capital	Subscription Receivables for Shares	Accumulated deficit	Noncontrolling interest	Total equity/(deficit)
	Shares	Amount	Shares	Amount	Shares	Amount					
Balances, July 1, 2018	-	-	-	-	25,939,892	-	108,117,330	(174,650)	(121,691,956)	54,338	(13,694,938)
Issuance of common stock for services	-	-	-	-	25,718	-	13,904	-	-	-	13,904
Vesting of options for services	-	-	-	-	-	-	118,000	-	-	-	118,000
Modification of options	-	-	-	-	-	-	222,300	-	-	-	222,300
Sale of units	-	-	-	-	954,733	-	477,365	-	-	-	477,365
Commissions on sale of units	-	-	-	-	1,028	-	(44,436)	-	-	-	(44,436)
Modification of warrants	-	-	-	-	-	-	166,776	-	-	-	166,776
Issuance of warrants	-	-	-	-	-	-	336,250	(330,000)	-	-	6,250
Conversion of debt and liabilities	-	-	-	-	200,000	-	100,000	-	-	-	100,000
Net loss	-	-	-	-	-	-	-	-	(1,438,205)	(3,692)	(1,441,897)
Balances, December 31, 2018	-	$-	-	$-	27,121,371	$-	$109,507,489	$(504,650)	$(123,130,161)	$50,646	$(14,076,676)

See notes to consolidated financial statements

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017
(UNAUDITED)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(1,441,897)	$(1,040,587)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	695	872
Accrued interest on loan payable, deferred compensation and other	203,632	209,684
Stock-based compensation	527,230	819,698
Gain on extinguishment of liabilities	-	(718,580)
Decrease in prepaid expenses	5,866	5,691
(Decrease) increase in accounts payable and accrued expenses	(62,989)	68,102
Increase in deferred compensation	355,800	406,800
Net cash used in operating activities	(411,663)	(248,320)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(958)	-
Net cash used in investing activities	(958)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of units	477,365	186,832
Commissions on sale of units	(44,436)	(13,508)
Proceeds from loans payable - affiliates	-	30,500
Net cash provided by financing activities	432,929	203,824
Net increase (decrease) in cash	20,308	(44,496)
Cash at beginning of period	22,013	72,932
Cash at end of period	$42,321	$28,436
Supplemental disclosure of cash flow information:		
Cash paid for interest	$-	$-
Non-cash investing and financing transactions:		
Purchase of warrants for subscription receivable - affiliates	$330,000	$134,650
Conversion of debt and liabilities	$100,000	$-
Shares issued for warrant exercise commissions	$514	$-
Warrants issued for unit commissions	$4,850	$-
Forgiveness of deferred compensation - related parties	$-	$1,685,252

See notes to consolidated financial statements
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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017

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

Organization and nature of business:

Bion Environmental Technologies, Inc. ("Bion" or "We" or the "Company") was incorporated in 1987 in the State of Colorado and has developed and continues to develop patented and proprietary technology and business models that provide comprehensive environmental solutions to a significant source of pollution in United States agriculture, large scale livestock facilities known as Concentrated Animal Feeding Operations ("CAFO's"). Application of our technology and technology platform can simultaneously remediate environmental problems and improve operational/resource efficiencies by recovering value from the CAFOs' waste stream that has traditionally been wasted or underutilized, including renewable energy, nutrients (nitrogen and phosphorus)--- in organic and conventional form-- and clean water. Bion's technologies (and applications related thereto) produce substantial reductions of nutrient releases (primarily nitrogen and phosphorus) to both water and air (including ammonia, which is subsequently re-deposited to the ground) from livestock waste streams based upon our operations and research to date (and third party peer review thereof). Our technology simultaneously enables the documentation of the remediation efforts thereby providing the basis for product branding which addresses consumer concerns regarding sustainability and food safety. We are continually involved in research and development to upgrade and improve our technology and technology applications, including integration with third party technology. Bion provides comprehensive and cost-effective treatment of livestock waste onsite (and/or at nearby locations), while it is still concentrated and before it contaminates air, soil, groundwater aquifers and/or downstream waters, and, in certain configurations, can be optimized to maximize recovery of marketable nutrients for potential use as fertilizer (organic and/or inorganic) and/or feed additives plus renewable energy (and related environmental credits).

From 2014 through the current 2019 fiscal year, the Company has focused its research and development on augmenting the basic 'separate and aggregate' approach of its technology platform to provide additional flexibility and to increase recovery of marketable nutrient by-products (in organic and non-organic forms) and renewable energy production (either/both biogas and/or renewable electricity), thereby increasing potential related revenue streams and reducing dependence of its future projects on the monetization of nutrient reductions (which still remain an important part of project revenue streams). Bion has worked on development of its third generation technology ("3G Tech") which is designed to: a) generate significantly greater value from the nutrients and renewable energy recovered from the waste stream, b) treat dry (poultry) waste streams as well as wet waste streams (dairy/beef cattle/swine) while c) maintaining or improving environmental performance. This research and development effort also involves ongoing review of potential "add-ons" and applications to our technology platform for use in different regulatory and/or climate environments. These research and development activities have targeted completion of development of the next generation of Bion's technology and technology platform. We believe such activities will continue at least through the 2019 calendar year (and likely longer), subject to availability of adequate financing for the Company's operations, of which there is no assurance. Such activities may include design and construction of an initial, commercial-scale module utilizing our 3G Tech to assist in optimization efforts before construction of the full Kreider 2 project (see below) and other Projects.

For the past decade, Bion has been directed toward creating applications of our patented and proprietary waste management technologies and technology platform to pursue JVs in three main business opportunities:

1) Installation of Bion systems to retrofit and environmentally remediate existing large CAFOs ("Retrofits" and "Retrofit Projects") in selected markets where:

a) government policy supports such efforts (such as the Chesapeake Bay watershed, Great Lakes Basin states, and/or other states and watersheds facing EPA 'total maximum daily load' ("TMDL") issues), and/or

b) CAFO’s need our technology to obtain permits to expand or develop without negative environmental consequences.

2) Development of new state-of-the-art large scale waste treatment facilities (now utilizing the Company's 3G Tech) which may be developed in conjunction with new CAFOs in strategic locations that were previously impracticable due to environmental impacts or to treat the waste streams from one or more existing large livestock facilities ("Projects"). Some of these Projects may be either a) Integrated Projects as described below, b) 'central processing facilities' which receive the waste from multiple livestock facilities, c) Retrofit Projects or d) hybrids with elements of each of these types. Each version will be able to realize revenue from multiple revenue streams potentially generated by our 3G Tech.

3) Licensing and/or joint venturing of Bion's technology and applications (primarily) outside North America.

In both categories 1) and 2) above, the Company intends to directly participate (whether by joint venture agreement or other contractual arrangements) in the revenues of the Retrofits and Projects.

The opportunities described at 1) and 2) above each require substantial political and regulatory (federal, state and local) efforts on the part of the Company and a substantial part of Bion's efforts are focused on such political and regulatory matters. Bion currently intends to pursue the international opportunities primarily through the use of consultants with existing relationships in target countries.

At this time, our primary focus is on category 2) above using our 3G Tech to develop new (or expanded) large-scale Projects with strategic partners (including the Kreider 2 Project) on a joint venture (or other participating contractual form) basis. Bion's business model opens up the opportunity for JV's in various forms based upon the revenue generated by our 3G Tech platform from nutrient reductions, fertilizer co-products and renewable natural gas (which revenue streams will be secured through long term take-off agreements for each of these co-products) providing initial support for financing of required capital expenditures (whether equity or debt). We anticipate that these revenue streams will be supplemented by revenue realized from long-term premium pricing resulting from the sustainable branding opportunity. We believe that the branding opportunity may provide the single largest contribution to the economic opportunity over time.

During 2008 the Company commenced actively pursuing the opportunity presented by environmental retrofit and remediation of the waste streams of existing CAFOs which effort has met with very limited success to date. The first commercial activity in this area is represented by our agreement with Kreider Farms ("KF"), pursuant to which the Kreider 1 system to treat KF's dairy waste streams to reduce nutrient releases to the environment while generating marketable nutrient credits and renewable energy was designed, constructed and entered full-scale operation during 2011. On January 26, 2009 the Board of the Pennsylvania Infrastructure Investment Authority ("Pennvest") approved a $7.75 million loan to Bion PA 1, LLC ("PA1"), a wholly-owned subsidiary of the Company, for the initial Kreider Farms project ("Kreider 1 System"). After substantial unanticipated delays, on August 12, 2010 PA1 received a permit for construction of the Kreider 1 System. Construction activities commenced during November 2010. The closing/settlement of the Pennvest Loan took place on November 3, 2010. PA1 finished the construction of the Kreider 1 System and entered a period of system 'operational shakedown' during May 2011. The Kreider 1 System reached full, stabilized operation by the end of the 2012 fiscal year. During 2011 the Pennsylvania Department of Environmental Protection ("PADEP") re-certified the nutrient credits for this project. The PADEP issued final permits for the Kreider 1 System (including the credit verification plan) on August 1, 2012 on which date the Company deemed that the Kreider 1 System was 'placed in service'. As a result, PA1 commenced generating nutrient reduction credits for potential sale while continuing to utilize the Kreider 1 System to test improvements and add-ons. However, to date liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth, which limited liquidity/depth has negatively impacted Bion's business plans and has resulted in challenges to monetizing the nutrient reductions created by PA1's existing Kreider 1 System and Bion's other proposed projects.

These difficulties have prevented PA1 from generating any material revenues from the Kreider 1 System to date and raise significant questions as to when, if ever, PA1 will be able to generate such revenues from the Kreider 1 System. PA1 has had sporadic discussions/negotiations with Pennvest related to forbearance and/or re-structuring its obligations pursuant to the Pennvest Loan for more than four years. In the context of such discussions/negotiations, PA1 elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, the Company has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of December 31, 2018. Due to the failure of the Pennsylvania nutrient reduction credit market to develop, the Company determined (on three separate occasions) that the carrying amount of the property and equipment related to the Kreider 1 System exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits. Therefore, PA1 and the Company recorded impairments related to the value of the Kreider 1 assets totaling $3,750,000 through June 30, 2015. During the 2016 fiscal year, PA1 and the Company recorded an additional impairment of $1,684,562 to the value of the Kreider 1 assets which reduced the value on the Company's books to zero. This impairment reflects management's judgment that the salvage value of the Kreider 1 assets roughly equals PA1's contractual obligations related to the Kreider 1 System, including expenses related to decommissioning of the Kreider 1 System, costs associated with needed capital upgrade expenses, and re-certification/ permitting amendments.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and accelerated the Pennvest Loan and demanded that PA1 pay $8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make the payment and does not have the resources to make the payments demanded by Pennvest. PA1 has commenced discussions and negotiations with Pennvest concerning this matter but Pennvest has rejected PA1's proposal made during the fall of 2014. No formal proposals are presently under consideration and only sporadic communication has taken place regarding the matters involved over the last 48 months. It is not possible at this date to predict the outcome of such this matter, but the Company believes that a loan modification agreement (coupled with an agreement regarding an update and re-start of full operations of the Kreider 1 System) may be reached in the future if/when a more robust market for nutrient reductions develops in Pennsylvania, of which there is no assurance. PA1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

During August 2012, the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 System met the 'technology guaranty' standards which were incorporated in the Pennvest financing documents and, as a result, the Pennvest Loan has been (and is now) solely an obligation of PA1 since that date.

The economics (potential revenues, profitability and continued operation) of the Kreider 1 System are based almost entirely on the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up.

On May 5, 2016, Bion PA2 LLC ("PA2") executed a stand-alone joint venture agreement with Kreider Farms covering matters related to development and operation of a system to treat the waste streams from Kreider's poultry facilities ("Kreider 2").

The Kreider projects are owned and operated by Bion through separate subsidiaries, in which Kreider has the option to acquire a noncontrolling interest. Substantial capital (equity and/or debt) has been and will continue to be expended on these projects. Additional funds will be required for continuing operations and additional capital expenditures for upgrades at Kreider 1 until sufficient revenues can be generated, of which there is no assurance. The Company anticipates that the Kreider 1 System will generate revenue primarily from the sale of nutrient reduction (and/or other) environmental credits. A portion of Bion's research and development activities has taken place at the Kreider 1 facility.

Kreider Farms – 3G Tech Project

Bion is completing an envelope of policy change and technology pilots that will allow it to move forward with the first commercial large scale 3G Tech project at Kreider Farms. Having recently received a Notice of Allowance of the initial 3G Tech patent (and subsequent filing of related additional patent applications/continuations), Bion is focused on two key tasks during the remainder of the 2019 fiscal and calendar year that will 'complete the envelope' and allow Bion to launch active development of the Kreider 2 poultry project (and/or other Projects) in 2019:

1. Support for adoption of PA SB 799 (and/or successor bills): This will create a competitively-bid market for nutrient reductions/Credits that we believe will provide support for project financing for Kreider 2 prior to development of markets for the coproducts from Kreider 2 are established.
2. Installation of a small-scale 3G Tech ammonia recovery system to produce ammonium bicarbonate to be used for grower trials and to make application to OMRI for organic certification.

The 3G Tech Kreider 2 project is planned for two (or more) locations. It is intended to treat the waste from Kreider's 1,800 dairy cows and approximately six million egg layer chickens (with capacity for an additional three million layers). The Project will be designed with modules with capacity of 450 tons (or more) per day of waste and will remove nitrogen and phosphorus from the waste stream that will be converted into high-value coproducts instead of polluting local and downstream waters. The Project is planned to be built in three phases and may be expanded to include a 'central processing facility' with modules that will accept transported waste from the region on fee basis.

Bion has a long-standing relationship with Kreider Farms including a 2016 joint venture agreement related to this facility. Kreider has already made a significant investment in upgrading its poultry facilities to maximize the treatment and recovery efficiencies that can be achieved with Bion's technology. We are cautiously optimistic that once PA SB799 has been passed, a market will be put in place for long-term commercial sale of the nutrient reduction credits produced at Kreider 2. Bion anticipates that it may require up to 6 months after SB799 becomes law to develop the rules/regulations related to the competitive bidding program. If the competitive bidding program is implemented, we intend to arrange project financing for the Kreider 2 Project during 2019.

Assuming there are positive developments related to the market for nutrient reductions in Pennsylvania, the Company intends to pursue development, design and construction of the Kreider 2 poultry waste/renewable energy project with a goal of achieving operational status for its initial modules during 2019. However, as discussed above, this Project faces challenges related to the current limits of the existing nutrient reduction market and funding of technology-based, verifiable agricultural nutrient reductions which are anticipated to constitute the largest share of its revenues.

Bion's current long-term goal is to acquire or develop, or have in a development pipeline, 6 to 12 Projects over the next 36 to 48 months.

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

Going concern and management's plans:

The consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has not generated significant revenues and has incurred net losses (including significant non-cash expenses) of approximately $3,018,000 and $2,463,000 during the years ended June 30, 2018 and 2017, respectively, and a net loss of approximately $1,442,000 during the six months ended December 31, 2018. At December 31, 2018, the Company has a working capital deficit and a stockholders' deficit of approximately $10,490,000 and $14,127,000, respectively. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability or classification of assets or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern. The following paragraphs describe management's plans with regard to these conditions.

The Company continues to explore sources of additional financing (including potential agreements with strategic partners – both financial and ag-industry) to satisfy its current and future operating and capital expenditure requirements as it is not currently generating any significant revenues.

During the years ended June 30, 2018 and 2017, the Company received total proceeds of approximately $418,000 and $452,000 from the sale of its debt and equity securities. Proceeds during the 2018 and 2017 fiscal years have been lower than in earlier years which reduction has negatively impacted the Company's business development efforts. During the six months ended December 31, 2018, the Company received gross proceeds of approximately $477,000 from the sale of its equity securities and paid approximately $44,000 in commissions.

During fiscal years 2018 and 2017, the Company continued to experience greater difficulty in raising equity funding than in the prior years. As a result, the Company faced, and continues to face, significant cash flow management challenges due to working capital constraints. To partially mitigate these working capital constraints, the Company's core senior management and several key employees and consultants have been deferring (and continue to defer) all or part of their cash compensation and/or are accepting compensation in the form of securities of the Company (Notes 4 and 6) and members of the Company's senior management have made loans to the Company. During the year ended June 30, 2018, senior management and certain core employees and consultants agreed to a one-time extinguishment of liabilities owed by the Company which in aggregate totaled $2,404,000. Additionally, the Company made reductions in its personnel during the years ended June 30, 2014 and 2015 and again during the year ended June 30, 2018. The constraint on available resources has had, and continues to have, negative effects on the pace and scope of the Company's efforts to develop its business. The Company has had to delay payment of trade obligations and has had to economize in many ways that have potentially negative consequences. If the Company does not have greater success in its efforts to raise needed funds during the remainder of the current fiscal year (and subsequent periods), management will need to consider deeper cuts (including additional personnel cuts) and curtailment of operations (including possibly Kreider 1 operations) and/or research and development activities.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bion Integrated Projects Group, Inc. (“Projects Group”), Bion Technologies, Inc., BionSoil, Inc., Bion Services, PA1, and PA2; and its 58.9% owned subsidiary, Centerpoint Corporation (“Centerpoint”). All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The consolidated financial statements reflect all adjustments (consisting of only normal recurring entries) that, in the opinion of management, are necessary to present fairly the financial position at December 31, 2018, and the results of operations and cash flows of the Company for the three and six months ended December 31, 2018 and 2017. Operating results for the three and six months ended December 31, 2018 are not necessarily indicative of the results that may be expected for the year ending June 30, 2019.

Cash and cash equivalents:

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

Property and equipment:

Property and equipment are stated at cost and are depreciated, when placed into service, using the straight-line method over the estimated useful lives of the related assets, generally three to twenty years. The Company capitalizes all direct costs and all indirect incrementally identifiable costs related to the design and construction of its Integrated Projects. The Company has elected to expense all costs and filing fees related to obtaining patents (resulting in no related asset being recognized in the Company’s balance sheet) because the Company believes such costs and fees are immaterial (in the context of the Company’s total costs/expenses) and have no direct relationship to the value of the Company’s patents. The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized based on the amount by which the carrying value of the assets or asset group exceeds its estimated fair value, and is recognized as a loss from operations.

Stock-based compensation:

The Company follows the provisions of Accounting Standards Codification (“ASC”) 718, which generally requires that share-based compensation transactions be accounted and recognized in the statement of income based upon their grant date fair values.

Derivative Financial Instruments:

Pursuant to ASC Topic 815 “Derivatives and Hedging” (“Topic 815”), the Company reviews all financial instruments for the existence of features which may require fair value accounting and a related mark-to-market adjustment at each reporting period end. Once determined, the Company assesses these instruments as derivative liabilities. The fair value of these instruments is adjusted to reflect the fair value at each reporting period end, with any increase or decrease in the fair value being recorded in results of operations as an adjustment to fair value of derivatives.

Warrants:

The Company has issued warrants to purchase common shares of the Company. Warrants are valued using a fair value based method, whereby the fair value of the warrant is determined at the warrant issue date using a market-based option valuation model based on factors including an evaluation of the Company’s value as of the date of the issuance, 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 valuations and purchases of the Company’s warrants. When warrants are issued in combination with debt or equity securities, the warrants are valued and accounted for based on the relative fair value of the warrants in relation to the total value assigned to the debt or equity securities and warrants combined.

Concentrations of credit risk:

The Company's financial instruments that are exposed to concentrations of credit risk consist of cash. The Company's cash is 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.

Noncontrolling interests:

In accordance with ASC 810, “Consolidation”, the Company separately classifies noncontrolling interests within the equity section of the consolidated balance sheets and separately reports the amounts attributable to controlling and noncontrolling interests in the consolidated statements of operations. In addition the noncontrolling interest continues to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance.

Fair value measurements:

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

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

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

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

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

The fair value of cash and accounts payable approximates their carrying amounts due to their short-term maturities. The fair value of the loan payable is indeterminable at this time due to the nature of the arrangement with a state agency and the fact that it is in default. The fair value of the redeemable preferred stock approximates its carrying value due to the dividends accrued on the preferred stock which are reflected as part of the redemption value. The fair value of the deferred compensation and convertible notes payable - affiliates are not practicable to estimate due to the related party nature of the underlying transactions.

Revenue Recognition:
The Company currently does not generate revenue and if and when the Company begins to generate revenue the Company will comply with the provisions of Accounting Standards Codification ("ASC") 606 "Revenue from Contracts with Customers".
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 or increase the earnings per share. During the three and six months ended December 31, 2018 and 2017, the basic and diluted loss per share was the same, as the impact of potential dilutive common shares was anti-dilutive.
The following table represents the warrants, options and convertible securities excluded from the calculation of basic loss per share:

	December 31, 2018	December 31, 2017
Warrants	16,305,320	12,195,920
Options	7,152,225	4,840,037
Convertible debt	8,136,018	6,855,942
Convertible preferred stock	17,500	16,500

The following is a reconciliation of the denominators of the basic and diluted loss per share computations for the three and six months ended December 31, 2018 and 2017:

	Three months ended December 31, 2018	Three months ended December 31, 2017	Six months ended December 31, 2018	Six months ended December 31, 2017
Shares issued – beginning of period	26,996,148	24,809,841	25,939,892	24,748,213
Shares held by subsidiaries (Note 7)	(704,309)	(704,309)	(704,309)	(704,309)
Shares outstanding – beginning of period	26,291,839	24,105,532	25,235,583	24,043,904
Weighted average shares issued during the period	90,939	127,591	785,681	106,204
Diluted weighted average shares – end of period	26,382,778	24,233,123	26,021,264	24,150,108

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.
Recent Accounting Pronouncements:
The Company continually assesses any new accounting pronouncements to determine their applicability. When it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequences of the change to its financial statements and assures that there are proper controls in place to ascertain that the Company's financial statements properly reflect the change.
In May 2017, the FASB issued ASU No. 2017-09 "Scope of Modification Accounting" which clarifies when changes to the terms or conditions of a share-based payment awards must be accounted for as modifications. The new guidance

will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. ASU No. 2017-09 will be applied prospectively to awards modified on or after the adoption date. The guidance is effective for annual periods, and interim periods within those annual periods beginning after December 15, 2017, with early adoption permitted. The adoption of ASU 2017-09 did not have a material impact on the Company's financial statements.

3. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	December 31, 2018	June 30, 2018
Machinery and equipment	$2,222,670	$2,222,670
Buildings and structures	401,470	401,470
Computers and office equipment	171,720	171,613
	2,795,860	2,795,753
Less accumulated depreciation	(2,794,149)	(2,794,305)
	$1,711	$1,448

Management reviewed property and equipment for impairment as of June 30, 2016 and determined that the carrying amount of property and equipment related to the Kreider 1 project exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits and potentially needed capital expenditures and it was also determined that the salvage value of the system components will be offset by contractual decommissioning obligations. Kreider 1 was measured at estimated fair value on a non-recurring basis using level 3 inputs, which resulted in an impairment of $1,684,562 of the property and equipment for the year ended June 30, 2016. As of June 30, 2016, the net book value of Kreider 1 was zero. As of December 31, 2018, management believes that no additional impairment exists.

Depreciation expense was $259 and $436 for the three months ended December 31, 2018 and 2017, respectively and $695 and $872 for the six months ended December 31, 2018 and 2017, respectively.

4. DEFERRED COMPENSATION:

The Company owes deferred compensation to various employees, former employees and consultants totaling $698,766 and $141,284 as of December 31, 2018 and 2017, respectively. Included in the deferred compensation balances as of December 31, 2018, are $396,041 and $42,541 owed Bassani and Smith, respectively, pursuant to extension agreements effective January 1, 2015, whereby unpaid compensation earned after January 1, 2015, accrues interest at 4% per annum and can be converted into shares of the Company's common stock at the election of the employee during the first five calendar days of any month. The conversion price shall be the average closing price of the Company's common stock for the last 10 trading days of the immediately preceding month. The deferred compensation owed Bassani and Smith as of December 31, 2017 was $31,000 and $18,000, respectively. The Company also owes various consultants, pursuant to various agreements, for deferred compensation of $186,700 and $18,800 as of December 31, 2018 and 2017, respectively, with similar conversion terms as those described above for Bassani and Smith, with the exception that the interest accrues at 3% per annum. Bassani and Smith have each been granted the right to convert up to $300,000 of deferred compensation balances at a price of $0.75 per share until December 31, 2019 (to be issued pursuant to the 2006 Plan). Smith has the right to convert all or part of his deferred compensation balance into the Company's securities (to be issued pursuant to the 2006 Plan) "at market" and/or on the same terms as the Company is selling or has sold its securities in its then current (or most recent if there is no current) private placement. The Company also owes a current employee deferred compensation of $984 which is convertible into 1,427 shares of the Company's common stock as of December 31, 2018 and, a former employee $72,500, which is not convertible and is non-interest bearing.

The Company recorded interest expense of $8,388 ($6,596 with related parties) and $31,055 ($25,177 with related parties) for the six months ended December 31, 2018 and 2017, respectively.

5. LOAN PAYABLE:

PA1, the Company's wholly-owned subsidiary, owes $9,160,313 as of December 31, 2018 under the terms of the Pennvest Loan related to the construction of the Kreider 1 System including accrued interest and late charges totaling $1,406,313 as of December 31, 2018. The terms of the Pennvest Loan provided for funding of up to $7,754,000 which was to be repaid by interest-only payments for three years, followed by an additional ten-year amortization of principal. The Pennvest Loan accrues interest at 2.547% per annum for years 1 through 5 and 3.184% per annum for years 6 through maturity. The Pennvest Loan required minimum annual principal payments of approximately $3,502,000 in fiscal years 2013 through 2018, and $771,000 in fiscal year 2019, $794,000 in fiscal year 2020, $819,000 in fiscal year 2021, $846,000 in fiscal year 2022, $873,000 in fiscal year 2023 and $149,000 thereafter. The Pennvest Loan is collateralized by the Kreider 1 System and by a pledge of all revenues generated from Kreider 1 including, but not limited to, revenues generated from nutrient reduction credit sales and by-product sales. In addition, in consideration for the excess credit risk associated with the project, Pennvest is entitled to participate in the profits from Kreider 1 calculated on a net cash flow basis, as defined. The Company has incurred interest expense related to the Pennvest Loan of $60,408 and $49,373 for the three months ended December 31, 2018 and 2017, respectively. The Company has incurred interest expense related to the Pennvest Loan of $113,747 and $98,747 for the six months ended December 31, 2018 and December 31, 2017, respectively. Based on the limited development of the depth and breadth of the Pennsylvania nutrient reduction credit market to date, PA1 commenced negotiations with Pennvest related to forbearance and/or re-structuring the obligations under the Pennvest Loan. In the context of such negotiations, PA1 has elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, the Company has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of December 31, 2018.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and demanded that PA1 pay $8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make the payment and does not have the resources to make the payment demanded by Pennvest. PA1 has engaged in on/off discussions and negotiations with Pennvest concerning this matter but no such discussions/negotiations are currently active. As of the date of this report, no formal proposals are presently under consideration and only sporadic communication has taken place regarding the matters involved over the past 48 months. It is not possible at this date to predict the outcome of this matter, but the Company believes it is possible that an agreement may yet be reached that will result in a viable loan modification. Subject to the results of the negotiations with Pennvest and pending development of a more robust market for nutrient reductions in Pennsylvania, PA1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

In connection with the Pennvest Loan financing documents, the Company provided a 'technology guaranty' regarding nutrient reduction performance of Kreider 1 which was structured to expire when Kreider 1's nutrient reduction performance had been demonstrated. During August 2012 the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 System had surpassed the requisite performance criteria and that the Company's 'technology guaranty' was met. As a result, the Pennvest Loan is solely an obligation of PA1.

6. CONVERTIBLE NOTES PAYABLE - AFFILIATES:

January 2015 Convertible Notes

The January 2015 Convertible Notes accrue interest at 4% per annum and were due and payable on December 31, 2017. Effective June 30, 2017, the maturity dates were extended on the January 2015 Convertible Notes until July 1, 2019 and were further extended to July 1, 2021 effective September 30, 2018. The January 2015 Convertible Notes (including accrued interest, plus all future deferred compensation), are convertible, at the sole election of the noteholder, into Units consisting of one share of the Company's common stock and one half warrant to purchase a share of the Company's common stock, at a price of $0.50 per Unit until December 31, 2020. The warrant contained in the Unit shall be exercisable at $1.00 per share until December 31, 2020. The original conversion price of $0.50 per Unit approximated the fair value of the Units at the date of the agreements; therefore no beneficial conversion feature exists. Management evaluated the terms and conditions of the embedded conversion features based on the guidance of ASC 815-15 "Embedded Derivatives" to determine if there was an embedded derivative requiring bifurcation. An embedded derivative instrument (such as a conversion option embedded in the deferred compensation) must be bifurcated from its host instruments and accounted for separately as a derivative instrument only if the "risks and rewards" of the embedded derivative instrument are not "clearly and closely related" to the risks and rewards of the host instrument in which it is embedded. Management concluded that the embedded conversion feature of the deferred compensation was not required to be bifurcated because the conversion feature is clearly and closely related to the host instrument, and because of the Company's limited trading volume that indicates the feature is not readily convertible to cash in accordance with ASC 815-10, "Derivatives and Hedging".

As of December 31, 2018, the January 2015 Convertible Note balances, including accrued interest, owed Bassani, Smith and Schafer were $1,698,873, $882,202 and $438,816, respectively. As of December 31, 2017, the January 2015 Convertible Note balances, including accrued interest, owed Bassani, Smith and Schafer were $1,640,291, $851,781 and $423,685, respectively. The Company recorded interest expense related to the January 2015 Convertible Notes of $26,247 for both of the three months ended December 31, 2018 and 2017, respectively. The Company recorded interest expense of $52,495 for both the six months ended December 31, 2018 and 2017, respectively.

During the six months ended December 31, 2018, the Company agreed to sell Bassani and Smith, 3,000,000 and 300,000 warrants, respectively, exercisable at $0.60 per share until June 30, 2025 and June 30, 2023, respectively. The purchase price for the warrants is $0.10 per warrant and is payable with secured promissory notes of $300,000 and $30,000 from Bassani and Smith, respectively, both of which are secured by their January 2015 Convertible Notes (Note 7).

September 2015 Convertible Notes

During the year ended June 30, 2016, the Company entered into September 2015 Convertible Notes with Bassani, Schafer and a Shareholder which replaced previously issued promissory notes. The initial principal balances of the September 2015 Convertible Notes were $405,831, $16,382 and $82,921, respectively. The September 2015 Convertible Notes bear interest at 4% per annum, had maturity dates of December 31, 2017 and may be converted at the sole election of the noteholders into restricted common shares of the Company at a conversion price of $0.60 per share. As the conversion price of $0.60 approximated the fair value of the common shares at the date of the September 2015 Convertible Notes, no beneficial conversion feature exists. During the year ended June 30, 2018, Bassani and the Company agreed to split his original September 2015 Convertible Note into two replacement notes with all the terms remaining the same. One of the replacement notes' original principal is $130,000, which is being held by the Company as collateral for a subscription receivable promissory note from Bassani. During the six months ended December 31, 2018, with the Company's approval, Bassani sold $300,000 of his second replacement note to a Shareholder with all the terms remaining the same.

The balances of the September 2015 Convertible Notes as of December 31, 2018, including accrued interest owed Bassani, Schafer and Shareholder, are $157,141, $18,554 and $392,544, respectively. The balances of the September 2015 Convertible Notes as of December 31, 2017, including accrued interest, were $443,627, $17,899 and $90,600, respectively.

Effective June 30, 2017, the maturity dates of the September 2015 Convertible Notes due Bassani and Schafer were extended until July 1, 2019 and during the year ended June 30, 2018, the maturity date of the note due a Shareholder was extended until July 1, 2019. During the six months ended December 31, 2018, the maturity dates of the all the September 2015 Convertible Notes were extended until July 1, 2021.

The Company recorded interest expense of $5,410 and $5,308 for the three months ended December 31, 2018 and 2017, respectively.   The Company recorded interest expense of $10,420 and $10,401 for the six months ended December 31, 2018 and 2017, respectively.

7. STOCKHOLDERS' EQUITY:

Series B Preferred stock:

At July 1, 2014, the Company had 200 shares of Series B redeemable convertible Preferred stock outstanding with a par value of $0.01 per share, convertible at the option of the holder at $2.00 per share, with dividends accrued and payable at 2.5% per quarter. The Series B Preferred stock is mandatorily redeemable at $100 per share by the Company three years after issuance and accordingly was classified as a liability. The 200 shares have reached their maturity date, but due to the cash constraints of the Company have not been redeemed.

During the years ended June 30, 2018 and 2017, the Company declared dividends of $2,000 and $2,000 respectively. During the six months ended December 31, 2018, the Company declared dividends of $1,000. At December 31, 2018, accrued dividends payable are $15,000. The dividends are classified as a component of operations as the Series B Preferred stock is presented as a liability in these financial statements.

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.

During the six months ended December 31, 2018, the Company issued 25,718 shares of the Company's common stock at prices ranging from $0.50 to $0.74 per share for services valued at $13,904, in the aggregate, to a consultant and an employee.

During the six months ended December 31, 2018, the Company issued 1,028 shares as commissions for the warrant exercises during the year ended June 30, 2018 valued at $514.

During the six months ended December 31, 2018, the Company entered into subscription agreements under two different offerings to sell units for $0.50 per unit, with each unit consisting of one share of the Company's restricted common stock and one warrant to purchase one half of a share of the Company's restricted common stock for $0.75 per share with expiry dates of June 30, 2019 and pursuant thereto, the Company issued 954,733 units for total proceeds of $477,365, net proceeds of $432,929 after commissions. The Company allocated the proceeds from the 954,733 shares and the 477,369 warrants based upon their relative fair values, using the share price on the day each of the subscription agreements were entered into and the fair value of the warrants, which was determined to be $0.05 per warrant. As a result, $17,515 was allocated to the warrants and $459,850 was allocated to the shares, and both were recorded as additional paid in capital.

During the six months ended December 31, 2018, Smith elected to convert deferred compensation and accounts payable of $87,063 and $12,937, respectively, into an aggregate 200,000 units at $0.50 per unit, with each unit consisting of one share of the Company's restricted common stock and one warrant to purchase one half of a share of the Company's restricted common stock for $0.75 per share until December 31, 2022.

Warrants:

As of December 31, 2018, the Company had approximately 16.3 million warrants outstanding, with exercise prices from $0.60 to $3.00 and expiring on various dates through June 30, 2025.

The weighted-average exercise price for the outstanding warrants is $0.96, and the weighted-average remaining contractual life as of December 31, 2018 is 4.1 years.

During the six months ended December 31, 2018, warrants to purchase 41,319 shares of common stock of the Company at a price of $1.00 per share expired.

During the six months ended December 31, 2018, the Company entered into subscription agreements under two different offerings to sell units for $0.50 per unit, with each unit consisting of one share of the Company's restricted common stock and one warrant to purchase one half of a share of the Company's restricted common stock for $0.75 per share with expiry dates of June 30, 2019 and pursuant thereto, the Company issued 954,733 units for total proceeds of $477,365, net proceeds of $432,932 after commissions. The Company allocated the proceeds from the 954,733 shares and the 477,369 warrants based upon their relative fair values, using the share price on the day each of the subscription agreements were entered into and the fair value of the warrants, which was determined to be $0.05 per warrant. As a result, $17,515 was allocated to the warrants and $459,850 was allocated to the shares, and both were recorded as additional paid in capital.

During the six months ended December 31, 2018, the Company received an interest bearing, secured promissory note for $300,000 from Bassani as consideration to purchase warrants to purchase 3,000,000 shares of the Company's restricted common stock, which warrants are exercisable at $0.60 and have expiry dates of December 31, 2025. The promissory note bears interest at 4% per annum, is secured by Bassani's January 2015 Convertible Note. The secured promissory note is payable July 1, 2020.

During the six months ended December 31, 2018, the Company received an interest bearing, secured promissory note for $30,000 from Smith as consideration to purchase warrants to purchase 300,000 shares of the Company's restricted common stock, which warrants are exercisable at $0.60 and have expiry dates of December 31, 2023. The warrants have a 75% exercise bonus. The promissory note bears interest at 4% per annum, is secured by Smith's 2015 January 2015 Convertible Note. The secured promissory note is payable on July 1, 2020.

During the six months ended December 31, 2018, Smith elected to convert deferred compensation and accounts payable of $87,063 and $12,937, respectively, into an aggregate 200,000 units at $0.50 per unit, with each unit consisting of one share of the Company's restricted common stock and one warrant to purchase one half of a share of the Company's restricted common stock for $0.75 per share until December 31, 2022.

During the six months ended December 31, 2018, the Company issued 125,000 warrants to a consultant to purchase 125,000 shares of the Company's restricted common stock, which warrants have exercise prices ranging between $0.74 and $1.20 per share and have expiry dates of ranging from August 27, 2020 through October 27, 2020. The warrants were in exchange for services expensed at $6,250, in aggregate.

During the six months ended December 31, 2018, the Company agreed to extend the expiration dates of 5,079,188 warrants owned by certain individuals (including 1,765,000 owned by Bassani and 3,104,010 owned by Smith) which were scheduled to expire at various dates ranging from September 30, 2018 through December 31, 2021. The Company recorded non-cash compensation expense related to the modification of the warrants of $163,026 ($88,250 and $68,758 for Bassani and Smith, respectively) and $3,750 as interest expense.

Stock options:

The Company's 2006 Consolidated Incentive Plan, as amended (the "2006 Plan"), provides for the issuance of options (and/or other securities) to purchase up to 30,000,000 shares of the Company's common stock. Terms of exercise and expiration of options/securities 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.

During the six months ended December 31, 2018, the Company approved the modification of existing stock options held by Smith, which extended certain expiration dates. The modifications resulted in incremental non-cash compensation of $222,300.

The Company recorded compensation expense related to employee stock options of $22,500 and $97,350 for the three months ended December 31, 2018 and 2017, respectively, and $118,000 and $99,650 for the six months ended December 31, 2018 and 2017, respectively. The Company granted 325,000 and 295,000 options during the six months ended December 31, 2018 and 2017, respectively.

The fair value of the options granted during the six months ended December 31, 2018 and 2017 were estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

	Weighted Average, December 31, 2018	Range, December 31, 2018	Weighted Average, December 31, 2017	Range, December 31, 2017
Volatility	70%	63%-76%	73%	73%
Dividend yield	-	-	-	-
Risk-free interest rate	2.73%	2.68%-2.78%	1.75%	1.75%
Expected term (years)	3.9	3.4 to 4.3	3	3

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 six months ended December 31, 2018 is as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at July 1, 2018	6,827,225	$ 1.11	3.8	$ -
Granted	325,000	0.68		
Exercised	-	-		
Forfeited	-	-		
Expired	-	-		
Outstanding at December 31, 2018	7,152,225	$ 1.10	3.5	$ 36,675
Exercisable at December 31, 2018	7,002,225	$ 1.11	3.6	$ 23,175

The following table presents information relating to nonvested stock options as of December 31, 2018:

	Options	Weighted Average Grant-Date Fair Value
Nonvested at July 1, 2018	-	$ -
Granted	325,000	0.36
Vested	(175,000)	0.46
Nonvested at December 31, 2018	150,000	$ 0.25

The total fair value of stock options that vested during the six months ended December 31, 2018 and 2017 was $80,500 and nil respectively. As of December 31, 2018, the Company had no unrecognized compensation cost related to stock options.

Stock-based employee compensation charges in operating expenses in the Company's financial statements for the three and six months ended December 31, 2018 and 2017 are as follows:

	Three months ended December 31, 2018	Three months ended December 31, 2017	Six months ended December 31, 2018	Six months ended December 31, 2017
General and administrative:				
Fair value of stock bonuses expensed	$ -	$ 3,090	$ -	$ 7,223
Change in fair value from modification of option terms	-	243,761	211,185	243,761
Change in fair value from modification of warrant terms	-	156,865	118,233	156,865
Fair value of stock options expensed	22,500	97,350	92,125	99,650
Total	$ 22,500	$ 501,066	$ 421,543	$ 507,499
Research and development:				
Fair value of stock bonus expensed	$ -	$ 8,071	$ -	$ 15,098
Change in fair value from modification of option terms	-	105,895	11,115	105,895

Change in fair value from modification of warrant terms	-	132,677	44,793	132,677
Fair value of stock options expensed	-	-	25,875	-