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

**FORM 10-QSB**

(Mark One)

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

**For the quarterly period ended March 31, 2006**

**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 Number: 0-21802**

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**N-VIRO INTERNATIONAL CORPORATION**

(Exact name of small business issuer as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**34-1741211**

(IRS Employer Identification No.)

**3450 W. Central Avenue, Suite 328**

**Toledo, Ohio**

(Address of principal executive offices)

**43606**

(Zip Code)

**Registrant's telephone number, including area code: (419) 535-6374**

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Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of May 5, 2006, 3,703,059 shares of N-Viro International Corporation \$ .01 par value common stock were outstanding.

Transitional Small Business Disclosure Format (check one):

Yes  No

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

**N-Viro International Corporation**  
**Consolidated Statements of Operations**  
(Unaudited)

|  | Three Months Ended March 31 |                    |
|--|-----------------------------|--------------------|
|  | 2006                        | 2005               |
| Revenues   | \$ 1,028,819                | \$ 1,136,446       |
| Cost of revenues   | <u>676,726</u>              | <u>789,296</u>     |
| Gross Profit   | 352,093                     | 347,150            |
| Operating expenses:  |                             |                    |
| Selling, general and administrative                            | <u>481,492</u>              | <u>349,162</u>     |
| Operating loss   | (129,399)                   | (2,012)            |
| Nonoperating income (expense):                                 |                             |                    |
| Interest income  | 2,526                       | 1,119              |
| Interest expense   | (4,636)                     | (7,186)            |
| Loss from equity investment in joint venture                   | -                           | (55,703)           |
|  | <u>(2,110)</u>              | <u>(61,770)</u>    |
| Loss before income taxes                                       | (131,509)                   | (63,782)           |
| Federal and state income taxes                                 | <u>-</u>                    | <u>-</u>           |
| Net loss   | <u>\$ (131,509)</u>         | <u>\$ (63,782)</u> |
| Basic and diluted loss per share                               | <u>\$ (0.04)</u>            | <u>\$ (0.02)</u>   |
| Weighted average common shares outstanding - basic and diluted | <u>3,694,726</u>            | <u>3,447,804</u>   |

See Notes to Consolidated Financial Statements

**N-Viro International Corporation**  
**Consolidated Balance Sheets**

|   | March 31, 2006<br>(Unaudited) | December 31,<br>2005 |
|---|-------------------------------|----------------------|
| <b><u>ASSETS</u></b>  |                               |                      |
| <b>CURRENT ASSETS</b>   |                               |                      |
| Cash and cash equivalents:  |                               |                      |
| Unrestricted  | \$ 216,067                    | \$ 224,447           |
| Restricted  | 128,645                       | 128,133              |
| Trade Receivables, net  | 588,403                       | 600,180              |
| Prepaid expenses and other assets   | 232,463                       | 204,360              |
| Total current assets  | 1,165,578                     | 1,157,120            |
| Property and Equipment, Net   | 374,306                       | 382,085              |
| Intangible and Other Assets, Net  | 960,453                       | 1,037,693            |
|   | \$ 2,500,337                  | \$ 2,576,898         |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>  |                               |                      |
| <b>CURRENT LIABILITIES</b>  |                               |                      |
| Current maturities of long-term debt  | \$ 82,430                     | \$ 80,860            |
| Line-of-credit  | 21,000                        | 80,000               |
| Accounts payable  | 865,128                       | 833,447              |
| Deferred revenue  | 51,535                        | -                    |
| Accrued liabilities   | 206,154                       | 204,109              |
| Total current liabilities   | 1,226,247                     | 1,198,416            |
| Long-term debt, less current maturities   | -                             | 21,209               |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                               |                      |
| <b>STOCKHOLDERS' EQUITY</b>   |                               |                      |
| Common stock, \$.01 par value; authorized 7,000,000 shares; issued<br>3,826,559 in 2006 and 3,814,159 in 2005 | 38,266                        | 38,141               |
| Additional paid-in capital  | 15,339,031                    | 15,290,831           |
| Accumulated deficit   | (13,418,317)                  | (13,286,809)         |
|   | 1,958,980                     | 2,042,163            |
| Less treasury stock, at cost, 123,500 shares  | 684,890                       | 684,890              |
| Total stockholders' equity  | 1,274,090                     | 1,357,273            |
|   | \$ 2,500,337                  | \$ 2,576,898         |

See Notes to Consolidated Financial Statements

**N-Viro International Corporation**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

|   | Three Months Ended March 31 |            |
|---|-----------------------------|------------|
|   | 2006                        | 2005       |
| NET CASH PROVIDED BY OPERATING ACTIVITIES                   | \$ 83,516                   | \$ 140,292 |
| CASH FLOWS FROM INVESTING ACTIVITIES                        |                             |            |
| Purchases of property and equipment                         | (12,746)                    | -          |
| Reductions to restricted cash and cash equivalents          | (512)                       | (50,314)   |
| Collections on notes receivable                             | -                           | 43,768     |
| Expenditures for intangible assets                          | -                           | (1,829)    |
| Net cash used in investing activities                       | (13,258)                    | (8,375)    |
| CASH FLOWS FROM FINANCING ACTIVITIES                        |                             |            |
| Net payments on line-of credit                              | (59,000)                    | (50,000)   |
| Principal payments on long-term obligations                 | (19,638)                    | (22,203)   |
| Issuance of stock - options, warrants and private placement | -                           | 42,500     |
| Private placement expenditures                              | -                           | (2,616)    |
| Net cash used in financing activities                       | (78,638)                    | (32,319)   |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS        | (8,380)                     | 99,598     |
| CASH AND CASH EQUIVALENTS - BEGINNING                       | 224,447                     | 147,549    |
| CASH AND CASH EQUIVALENTS - ENDING                          | \$ 216,067                  | \$ 247,147 |
| Supplemental disclosure of cash flows information:          |                             |            |
| Cash paid during the three months ended for interest        | \$ 5,025                    | \$ 17,174  |

See Notes to Consolidated Financial Statements

**N-VIRO INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**1. Organization and Basis of Presentation**

The accompanying consolidated financial statements of N-Viro International Corporation (the "Company") are unaudited but, in management's opinion, reflect all adjustments (including normal recurring accruals) necessary to present fairly such information for the period and at the dates indicated. The results of operations for the three months ended March 31, 2006 may not be indicative of the results of operations for the year ending December 31, 2006. Since the accompanying consolidated financial statements have been prepared in accordance with Item 310 of Regulation S-B, they do not contain all information and footnotes normally contained in annual consolidated financial statements; accordingly, they should be read in conjunction with the consolidated financial statements and notes thereto appearing in the Company's Form 10-KSB for the period ending December 31, 2005.

The financial statements are consolidated as of March 31, 2006 and December 31, 2005 for the Company. There were no intercompany transactions.

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following are certain significant estimates and assumptions made in preparation of the financial statements:

Allowance for Doubtful Accounts – The Company estimates losses for uncollectible accounts based on the aging of the accounts receivable and the evaluation of the likelihood of success in collecting the receivable. The balance of the allowance at March 31, 2006 and December 31, 2005 is \$55,000.

Property and Equipment/Long-Lived Assets – Property and equipment is reviewed for impairment pursuant to the provisions of Statement of Financial Accounting Standards (or SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The carrying amount of an asset (group) is considered impaired if it exceeds the sum of the Company's estimate of the undiscounted future cash flows expected to result from the use and eventual disposition of the asset (group), excluding interest charges. Property, machinery and equipment are stated at cost less accumulated depreciation. Management believes the carrying amount is not impaired based upon estimated future cash flows.

Equity Method Investment – The Company accounts for its investments in joint ventures under the equity method. The Company periodically evaluates the recoverability of its equity investments in accordance with Accounting Principals Board Opinion, or APB, Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." If circumstances were to arise where a loss would be considered other than temporary, the Company would record a write-down of excess investment cost. Management has determined that no write-down was required at March 31, 2006.

Intangible Assets – Intangible assets deemed to have indefinite lives are tested for impairment by comparing the fair value with its carrying value. Significant estimates used in the determination of fair value include estimates of future cash flows. As required under current accounting standards, the Company tests for impairment when events and circumstances indicate that the assets might be

impaired and the carrying value of those assets may not be recoverable. The Company is also amortizing the capitalized cost of obtaining its credit facility, for the additional collateral required and evidenced by a warrant to purchase 50,000 shares of the Company's common stock. The Company estimated this cost at February 26, 2003 to be \$30,000, and is amortizing this over 4 years by the straight-line method.

**Fair Value of Financial Instruments** – The fair values of cash, accounts receivable, accounts payable and other short-term obligations approximate their carrying values because of the short maturity of these financial instruments. The carrying values of the Company's long-term obligations approximate their fair value. In accordance with SFAS No. 107, "Disclosure About Fair Value of Financial Instruments," rates available at balance sheet dates to the Company are used to estimate the fair value of existing debt.

**Income Taxes** – The Company assumes the deductibility of certain costs in income tax filings and estimates the recovery of deferred income tax assets.

**Stock Options** – Through December 31, 2005, the Company accounted for stock-based compensation issued to its employees and directors in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation cost was recognized through that period for the stock option plans, as all options granted under the plans have an exercise price equal to the market value of the underlying common stock on the date of the grant, except for the options granted in May, 2004 to Michael Nicholson, which is explained further in Note 4, "Contingencies". The fair value of options granted was determined using the Black-Scholes option pricing model. In December 2004, SFAS No. 123R, "Accounting for Stock-Based Compensation" was issued and changed the accounting for transactions in which an entity obtains employee services in a share-based payment transaction. For Small Business issuers, the Statement is effective as of the beginning of the first interim period or annual reporting period that begins after December 15, 2005. The adoption of this standard is reflected in the current period by the expensing of existing stock options granted in 2004 that vest through 2008 to current optionees, and options granted in the current period to directors for a board meeting. The Company is uncertain as to any future grants in the current year to employees or others that may be approved by the Board.

The following table illustrates the effect on net income (loss) and net income (loss) per share if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board (or FASB) Statement No. 123, "Accounting for Stock-based Compensation" to stock-based employee compensation:

|   | <u>Three Months Ended March 31</u> |                     |
|---|------------------------------------|---------------------|
|   | <u>2006</u>                        | <u>2005</u>         |
| Net loss, as reported   | \$ (131,509)                       | \$ (63,782)         |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects (2005 only) | <u>-</u>                           | <u>(78,974)</u>     |
| Pro forma net loss  | <u>\$ (131,509)</u>                | <u>\$ (142,756)</u> |
| Loss per share:   |                                    |                     |
| Basic and diluted - as reported   | <u>\$ (0.04)</u>                   | <u>\$ (0.02)</u>    |
| Basic and diluted - pro-forma   | <u>\$ (0.04)</u>                   | <u>\$ (0.04)</u>    |

#### **Note 2. Related Party Transactions**

On March 1, 2006, the Company issued 12,500 shares of unregistered common stock to Timothy Kasmoch, Chief Executive Officer, pursuant to the terms of his employment agreement agreed to in February, 2006. See Note 4, "Contingencies".

#### **Note 3. Long-Term Debt**

The Company presently has a \$695,000 credit facility with Monroe Bank + Trust, or the Bank. This senior debt credit facility is comprised of a \$295,000 four year term note at 7.5% and a line of credit up to \$400,000 at Prime (7.75% at March 31, 2006) plus 1.5% and secured by a first lien on all assets of the Company. Two certificates of deposit totaling \$125,000 from the Bank are held as a condition of maintaining the facility. The Company has currently renewed the line of credit through October 2006, and is not in violation of any financial covenants. At March 31, 2006, the Company had \$379,000 of borrowing capacity under the credit facility. The amount owed on the term note as of March 31, 2006 was approximately \$82,000 and this term note is expected to be paid in full in March 2007.

#### **Note 4. Contingencies**

The Company leases its executive and administrative office in Toledo, Ohio, under a lease that extends through February 2007. The Company believes its relationship with its lessor is satisfactory. The total minimum rental commitment for the years ending December 31, 2006 and 2007 is approximately \$37,200 and \$6,200, respectively. The total rental expense included in the statements of operations for the three months ended March 31, 2006 and 2005 is approximately \$9,300 and \$9,600, respectively. The Company also leases various equipment on a month-to-month basis.

In March 2006, the Company's Board of Directors approved a Consulting Agreement with DJH Holdings, LLC, a company owned by Daniel J. Haslinger, a current member of the Board and up until February 14, 2006, the Company's Chief Executive Officer. The consulting arrangement is for a six-month term, is terminable by DJH Holdings, LLC upon fifteen (15) days notice or by us upon ninety (90) days notice. Payments under the Consulting Agreement are \$9,000 per month. The Consulting Agreement is effective as of February 13, 2006. A copy of the Consulting Agreement was attached to a Form 8-K as Exhibit 10.1, filed by us March 20, 2006.

In March 2006, the Company's Board of Directors approved a Consulting Agreement with Carl Richard, a current member of the Board. The term of the Consulting Agreement is one (1) year, is terminable by Mr. Richard upon fifteen (15) days notice or by us upon ninety (90) days notice. Payments under the Consulting Agreement are \$1,600 per month. The Consulting Agreement is effective as of February 13, 2006. A copy of the Consulting Agreement was attached to a Form 8-K as Exhibit 10.2, filed by us March 20, 2006.

In March 2006, the Company's Board of Directors approved a First Amendment to a Consulting Agreement dated July 1, 2004 with Terry J. Logan, a current member of the Board. The existing Consulting Agreement was scheduled to expire on June 30, 2006, and was extended an additional two (2) years from that date. The existing Consulting Agreement was filed as an exhibit to the Form 8-K filed on July 2, 2004 by N-Viro International Corporation. All other terms of the existing Consulting Agreement have been retained, with the exception of Section 5.4, referring to Dr. Logan's stock option compensation, which has been deleted by the First Amendment. Dr. Logan will continue to be compensated at a base fee of \$87.50 per hour. The First Amendment to the Consulting Agreement is effective as of February 13, 2006. A copy of the Consulting Agreement was attached to a Form 8-K as Exhibit 10.3, filed by us March 20, 2006.

In February 2006, the Company executed an Employment Agreement with Timothy R. Kasmoch. Mr. Kasmoch is now employed by the Company as President and Chief Executive Officer, and is a member of the Company's Board of Directors. The Company and Mr. Kasmoch agreed primarily to enter into an employment arrangement which is for a one-year term, for \$60,000 per year plus 50,000 unregistered shares of stock in the Company. The Employment Agreement is terminable with or without cause, and is effective at the date of agreement. A copy of the Employment Agreement was attached to a Form 8-K as Exhibit 10.1, filed by us February 21, 2006.

In August 2003, the Company entered into a Settlement Agreement with Mr. J. Patrick Nicholson and negotiated a new consulting agreement (the "Agreement"). The Agreement was scheduled to expire in August 2008, and Mr. Nicholson was required to provide future services to be eligible for compensation. Mr. Nicholson was also entitled to payments of \$48,000 per year for non-competition and \$6,000 per year for office space reimbursement, in addition to life and health insurance coverage similar to the provision contained in his 1999 employment and consulting agreements. In June 2005, Mr. Nicholson filed a Demand for Arbitration, seeking damages of \$50,000 from the Company, based on a claimed breach of the Agreement. Mr. Nicholson also seeks rescission of the Agreement and reinstatement of a prior agreement between him and the Company, which was in effect prior to the order by the Delaware Chancery Court terminating a shareholder derivative suit. This arbitration proceeding was previously reported in a Form 10-QSB filed August 15, 2005. The Company is vigorously contesting Mr. Nicholson's claims in this proceeding. Discovery is still in process, and a hearing on the matter is scheduled for July 17-21, 2006.

On July 13, 2005, the Company's Board of Directors voted to terminate for cause the Consulting Agreement with J. Patrick Nicholson, based on numerous specific instances of violations of the terms of the Consulting Agreement by him. The Consulting Agreement, filed as Exhibit B to the Form 8-K filed

August 29, 2003, contained a term ending no earlier than five years from the date of the contract. Mr. Nicholson is a reporting beneficial owner of approximately 13.4% of the Company's outstanding common stock, as of the date of his Form SC 13D/A filed October 24, 2005. Mr. Nicholson was being paid an aggregate of over \$92,000 per year under the Consulting Agreement, exclusive of any other payouts earnable.

On January 27, 2006, J. Patrick Nicholson applied to the Delaware Chancery Court for an order to compel the Company to allow him access to inspect its corporate and business books and records and its stockholder list, pursuant to a request under Section 220 of the Delaware General Corporation Law. No monetary relief is sought in this action. The matter is in the preliminary stages, and the Company contends that the documents sought by Mr. Nicholson in this action far exceed those to which he is entitled under Section 220, and principally relate to his claims in the arbitration described above. The Company is vigorously defending this action, but no discovery has been conducted, and no relief has been granted as of the date of this Form 10-QSB.

In June 2003, the Company entered into an Employment Agreement (the "Agreement") with Michael G. Nicholson, the Chief Development Officer and a member of the Board of Directors of the Company. The employment agreement will expire in June 2007, and future compensation amounts are to be determined annually by the Board of Directors. The agreement was disclosed in a filing on June 10, 2003 on Form 8-K. In the third quarter of 2004, the Company and Mr. Nicholson renegotiated primarily the stock option portion of the Agreement, and amended the Agreement. Because these options were priced lower than the fair market value as of that date, the Company is required to take a charge to earnings totaling approximately \$68,400 ratably through June, 2007, the ending date of his employment agreement

The Company operates in an environment with many financial risks, including, but not limited to, major customer concentrations, customer contract termination provisions, competing technologies, infringement and/or misappropriation of intellectual property rights, the highly competitive and, at times, seasonal nature of the industry and worldwide economic conditions. Various federal, state and governmental agencies are considering, and some have adopted, laws and regulations regarding environmental protection which could adversely affect the business activities of the Company. The Company cannot predict what effect, if any, current and future regulations may have on the operations of the Company.

#### **Note 5. New Accounting Standards**

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140", which amends FASB Statements No. 133, "Accounting for Derivative Instruments and Hedging Activities", and No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", and clarifies valuation of certain financial instruments and derivatives to a fair-value method of valuation. The Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect the application of the provisions of SFAS No. 155 to have a material impact on its financial position, results of operations or cash flows.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140", which amends FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognized servicing assets and servicing liabilities. This statement requires that all separately recognized mortgage-related servicing assets and servicing liabilities be initially measured at fair value, if practicable. The Statement is effective as of the beginning of a

company's first fiscal year that begins after September 15, 2006. The Company does not expect the application of the provisions of SFAS No. 156 to have a material impact on its financial position, results of operations or cash flows.

#### **Note 6. Segment Information**

**Earnings Variation Due to Business Cycles and Seasonal Factors.** The Company's operating results can experience quarterly or annual variations due to business cycles, seasonality and other factors. The market price for its common stock may decrease if its operating results do not meet the expectations of the market.

For the first quarter of 2006, approximately 44% of the Company's revenue is from management operations, 53% from other domestic operations and 3% from research and development grants. Sales of the N-Viro technology are affected by general fluctuations in the business cycles in the United States and worldwide, instability of economic conditions (such as the current conditions in the Asia Pacific region and Latin America) and interest rates, as well as other factors. In addition, operating results of some of the Company's business segments are influenced by particular business cycles and seasonality, as well as other factors such as interest rates.

**Competition.** The Company conducts business in a highly competitive market and has fewer resources than most of its competitors. Businesses in this market compete within and outside the United States principally on the basis of price, product quality, custom design, technical support, reputation, equipment financing assistance and reliability. Competitive pressures and other factors could cause the Company to lose market share or could result in decreases in prices, either of which could have a material adverse effect on its financial position and results of operations.

**Risks of Doing Business in Other Countries.** The Company conducts business in markets outside the United States, and expects to continue to do so. In addition to the risk of currency fluctuations, the risks associated with conducting business outside the United States include: social, political and economic instability; slower payment of invoices; underdeveloped infrastructure; underdeveloped legal systems; and nationalization. The Company has not entered into any currency swap agreements which may reduce these risks. The Company may enter into such agreements in the future if it is deemed necessary to do so. Current economic and political conditions in the Asia Pacific and Middle East regions have affected the Company outlook for potential revenue there. The Company cannot predict the full impact of this economic instability, but it could have a material adverse effect on revenues and profits.

The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting, which segregates its business by product category and service lines. The Company's reportable segments are as follows:

Management Operations – The Company provides employee and management services to operate the Toledo Wastewater Treatment Facility.

Other Domestic Operations – Sales of territory or site licenses and royalty fees to use N-Viro technology in the United States.

Foreign Operations – Sale of territory or site licenses and royalty fees to use N-Viro technology in foreign operations.

Research and Development – The Company contracts with Federal and State agencies to perform or assist in research and development on the Company's technology.

The accounting policies of the segments are the same as the Company's significant accounting policies. Fixed assets generating specific revenue are identified with their respective segments and are accounted for as such in the internal accounting records. All other assets, including cash and other current assets and all long-term assets, other than fixed assets, are not identified with any segments, but rather the Company's administrative functions. All of the net nonoperating income (expense) are non-apportionable and not allocated to a specific segment. The Company accounts for and analyzes the operating data for its segments generally by geographic location, with the exception of the Management Operations and Research and Development segments. The Management Operations segment represents both a significant amount of business generated as well as a specific location and unique type of revenue.

The domestic and foreign operations segments differ in terms of environmental and municipal legal issues, nature of the waste disposal infrastructure, political climate and availability of funds for investing in the Company's technology. These factors have not changed significantly over the past several years and are not expected to change in the near term.

The Research and Development segment accounts for approximately 3% of the total year-to-date revenue of the Company, and is unlike any other revenue in that it is generated as a result of a specific project to conduct initial or additional ongoing research into the Company's emerging technologies.

The table below presents information about the segment profits and segment identifiable assets used by the chief operating decision makers of the Company for the periods ended March 31, 2006 and 2005 (dollars in thousands):

|                                     | Management<br>Operations | Domestic<br>Operations | Foreign<br>Operations | Research &<br>Development | Total    |
|-------------------------------------|--------------------------|------------------------|-----------------------|---------------------------|----------|
| <u>Quarter Ended March 31, 2006</u> |                          |                        |                       |                           |          |
| Revenues                            | \$ 454                   | \$ 545                 | \$ -                  | \$ 30                     | \$ 1,029 |
| Cost of revenues                    | 257                      | 391                    | 4                     | 25                        | 677      |
| Segment profits                     | 197                      | 154                    | (4)                   | 5                         | 352      |
| Identifiable assets                 | 238                      | 131                    | -                     | -                         | 369      |
| Depreciation                        | 17                       | 3                      | -                     | -                         | 20       |
| <u>Quarter Ended March 31, 2005</u> |                          |                        |                       |                           |          |
| Revenues                            | \$ 342                   | \$ 758                 | \$ 13                 | \$ 23                     | \$ 1,136 |
| Cost of revenues                    | 222                      | 548                    | -                     | 19                        | 789      |
| Segment profits                     | 120                      | 210                    | 13                    | 4                         | 347      |
| Identifiable assets                 | 272                      | 59                     | -                     | -                         | 331      |
| Depreciation                        | 15                       | 4                      | -                     | -                         | 19       |

A reconciliation of total segment revenues, cost of revenues, and segment profits to consolidated revenues, cost of revenues, and segment information to the consolidated financial statements for the periods ended March 31, 2006 and 2005 is as follows (dollars in thousands):

|  | Qtr. Ended March 31 |                 |
|--|---------------------|-----------------|
|  | 2006                | 2005            |
| Segment profits:                                       |                     |                 |
| Segment profits for reportable segments                | \$ 352              | \$ 347          |
| Corporate selling, general and administrative expenses | (481)               | (349)           |
| Other income (expense)                                 | (2)                 | (62)            |
| Consolidated income (loss) before taxes                | <u>\$ (131)</u>     | <u>\$ (64)</u>  |
| Identifiable assets:                                   |                     |                 |
| Identifiable assets for reportable segments            | \$ 369              | \$ 331          |
| Corporate property and equipment                       | 5                   | 10              |
| Current assets not allocated to segments               | 1,166               | 1,408           |
| Intangible and other assets not allocated to segments  | 960                 | 1,175           |
| Consolidated assets                                    | <u>\$ 2,500</u>     | <u>\$ 2,924</u> |
| Depreciation and amortization:                         |                     |                 |
| Depreciation for reportable segments                   | \$ 20               | \$ 19           |
| Corporate depreciation and amortization                | 35                  | 37              |
| Consolidated depreciation and amortization             | <u>\$ 55</u>        | <u>\$ 56</u>    |

**Note 7. Investment in Florida N-Viro, L. P.**

Florida N-Viro, L.P. was formed in January 1996 pursuant to a joint venture agreement between the Company and VFL Technology Corporation (VFL). The Company owns a 47.5% interest in the joint venture and accounts for its investment under the equity method. The Company has recognized its share of the joint venture's losses to the extent of its investment. Any additional losses passed through from the joint venture were recorded as an increase to the allowance against the Note Receivable, through November 2005, when the total losses matched the value of the Notes. After that date, the Company has not recorded any additional loss even though Florida N-Viro continued to sustain losses, because of a lack of basis in this investment.

Condensed financial information of Florida N-Viro, L.P. for the quarters ended March 31, 2006 and 2005 is as follows:

|                                 | For the Quarter Ended March 31 |            |
|---------------------------------|--------------------------------|------------|
|                                 | 2006                           | 2005       |
| Net sales                       | \$ 414,566                     | \$ 299,682 |
| Gross profit (loss)             | 5,485                          | (62,602)   |
| Loss from continuing operations | (36,737)                       | (117,268)  |
| Net loss                        | (36,737)                       | (117,268)  |

## **Item 2. Management's Discussion and Analysis or Plan of Operation**

### ***Forward-Looking Statements***

*This 10-QSB contains statements that are forward-looking. We caution that words used in this document such as "expects," "anticipates," "believes," "may," and "optimistic," as well as similar words and expressions used herein, identify and refer to statements describing events that may or may not occur in the future. These forward-looking statements and the matters to which they refer are subject to considerable uncertainty that may cause actual results to be materially different from those described herein. There are numerous factors that could cause actual results to be different than those anticipated or predicted by us, including: (i) a deterioration in economic conditions in general; (ii) a decrease in demand for our products or services in particular; (iii) our loss of a key employee or employees; (iv) regulatory changes, including changes in environmental regulations, that may have an adverse affect on the demand for our products or services; (v) increases in our operating expenses resulting from increased costs of labor and/or consulting services; and (vi) a failure to collect upon or otherwise secure the benefits of existing contractual commitments with third parties, including our customers. This list provides examples of factors that could affect the results described by forward-looking statements contained in this Form 10-QSB; however, this list is not exhaustive and many other factors could impact the Company's business and it is impossible to predict with any accuracy which factors could result in negative impacts. Although we believe that the forward-looking statements contained in this Form 10-QSB are reasonable, we cannot provide you with any guarantee that the anticipated results will not be adverse and that the anticipated results will be achieved. All forward-looking statements in this Form 10-QSB are expressly qualified in their entirety by the cautionary statements contained in this section and you are cautioned not to place undue reliance on the forward-looking statements contained in this Form 10-QSB. In addition to the risks listed above, other risks may arise in the future, and we disclaim any obligation to update information contained in any forward-looking statement.*

### **Overview**

We incorporated in April, 1993, and became a public company on October 12, 1993. Our business strategy is to market the N-Viro Process, which produces a sludge product with multiple commercial uses having an "exceptional quality" as defined in the Section 503 Sludge Regulations under the Clean Water Act of 1987. To date, our revenues have been derived primarily from the licensing of the N-Viro Process to treat and recycle wastewater sludge generated by municipal wastewater treatment plants and from the sale to licensees of the alkaline admixture used in the N-Viro Process. We also operate N-Viro facilities for third parties on a start-up basis and currently operate one N-Viro facility on a contract management basis.

### **Results of Operations**

Total revenues were \$1,028,000 for the quarter ended March 31, 2006 compared to \$1,136,000 for the same period of 2005. The net decrease in revenue is due primarily to a decrease in alkaline admixture sales and service fees and, a decrease in royalty fees. Our cost of revenues decreased to \$677,000 in 2006 from \$789,000 for the same period in 2005, and the gross profit percentage increased to 34% from 31% for the quarters ended March 31, 2006 and 2005, respectively. This increase in gross profit percentage is primarily due to the increase in the supply of alkaline admixture that is our lower-cost source and, a decrease in the costs of the facility management fee operations. Operating expenses increased for the comparative period, while our share of the loss of a joint venture, our interest in Florida N-Viro, L.P., decreased for the same period of 2006. These changes collectively resulted in a net loss of approximately

\$132,000 for the quarter ended March 31, 2006 compared to a net loss of \$64,000 for the same period in 2005.

### **Comparison of Three Months Ended March 31, 2006 with Three Months Ended March 31, 2005**

Our overall revenue decreased \$108,000, or 9.5%, to \$1,029,000 for the quarter ended March 31, 2006 from \$1,136,000 for the quarter ended March 31, 2005. The net decrease in revenue was due primarily to the following:

- a) Sales of alkaline admixture decreased \$54,000 from the same period ended in 2005;
- b) Revenue from the service fees for the management of alkaline admixture decreased \$86,000 from the same period ended in 2005;
- c) Our processing revenue, including facility management revenue, showed a net increase of \$52,000 over the same period ended in 2005;
- d) Miscellaneous revenues decreased \$26,000 from the same period ended in 2005; and
- e) Research and development revenue increased \$8,000 from the same period ended in 2005.

Our gross profit increased \$5,000, or 1.4%, to \$352,000 for the three months ended March 31, 2006 from \$347,000 for the three months ended March 31, 2005, and the gross profit margin increased to 34% from 31% for the same periods. The increase in gross profit margin is primarily due to the increase in the supply of alkaline admixture that is our lower-cost source and, a decrease in the costs of the facility management fee operations.

Our operating expenses increased \$132,000, or 38%, to \$481,000 for the three months ended March 31, 2006 from \$349,000 for the three months ended March 31, 2005. The increase was primarily due to an increase of approximately \$40,000 in employee payroll and related expenses, \$36,000 in legal fees, \$26,000 in director-related stock options expense, \$21,000 in travel and meals expenses and, \$14,000 in consulting expense. Of the overall increase in operating expenses of \$132,000, approximately \$53,000 was the result for issuing stock or stock options to be used as payment for the expense, the majority a result of a change in the rules for accounting – See Note 1 “Stock Options”, in Part I Notes to Consolidated Financial Statements.

As a result of the foregoing factors, we recorded an operating loss of \$129,000 for the three months ended March 31, 2006 compared to an operating loss of \$2,000 for the three months ended March 31, 2005, an increase in the loss of approximately \$127,000.

Our net nonoperating income (expense) decreased by \$60,000 to net nonoperating expense of \$2,000 for the three months ended March 31, 2006 from net nonoperating expense of \$62,000 for the three months ended March 31, 2005. The decrease in nonoperating expense was primarily due to a reduction in the recognition of losses from our investment in Florida N-Viro, L.P., to a loss of \$-0- in 2006 from a loss of \$56,000 in 2005.

We recorded net loss of approximately \$132,000 for the three months ended March 31, 2006 compared to a net loss of \$64,000 for the same period ended in 2005, an increase in the loss of approximately \$68,000.

For the three months ended March 31, 2006 and 2005, we have not fully recognized the tax benefit of the losses incurred in prior periods. Accordingly, our effective tax rate for each period was zero.

## **Liquidity and Capital Resources**

We had a working capital deficit of approximately \$61,000 at March 31, 2006, compared to a working capital deficit of \$41,000 at December 31, 2005, resulting in a decrease in working capital of \$20,000. Current assets at March 31, 2006 included cash and investments of approximately \$345,000 (including restricted cash of approximately \$129,000), which is a decrease of \$8,000 from December 31, 2005. The decrease in working capital was principally due to the recognition of approximately \$48,000 of costs relating to consulting, payroll and director expenses paid for in unregistered common stock and related instruments, primarily offset by \$21,000 of payments on long-term debt.

Our cash flow provided by operations for the first three months of 2006, ending March 31, 2006, was approximately \$84,000, a decrease of approximately \$57,000 from the same period in 2005. This decrease was principally due to the negative change in working capital of approximately \$32,000, an increase in cash received from the issuance of stock for services of approximately \$41,000 and decreased by the increase in the net loss of approximately \$68,000.

The Company presently has a \$695,000 credit facility with Monroe Bank + Trust, or the Bank. This senior debt credit facility is comprised of a \$295,000 four year term note at 7.5% and a line of credit up to \$400,000 at Prime (7.75% at March 31, 2006) plus 1.5% and secured by a first lien on all assets of the Company. Two certificates of deposit totaling \$125,000 from the Bank are held as a condition of maintaining the facility. The Company has currently renewed the line of credit through October 2006, and is not in violation of any financial covenants. At March 31, 2006, the Company had \$379,000 of borrowing capacity under the credit facility. The amount owed on the term note as of March 31, 2006 was approximately \$82,000 and this term note is expected to be paid in full in March 2007.

The normal collection period for accounts receivable is approximately 30-60 days for the majority of customers. This is a result of the nature of the license contracts, type of customer and the amount of time required to obtain the information to prepare the billing.

We are currently in discussions with several companies in the cement and fuel industries for the development and commercialization of the patented N-Viro fuel technology. There can be no assurance that these discussions will be successful.

We continue to focus on the development of regional biosolids processing facilities. Currently we are in negotiations with several privatization firms to permit and develop independent, regional facilities.

We expect improvements in operating results for the balance of 2006 and into 2007 partially due to realized and expected new sources of revenue. Additionally, market developments and ongoing discussions with companies in the fuel and wastewater industries could provide enhanced liquidity and positively impact 2006 and 2007 operations.

We believe that current market trends and increased and more focused emphasis on our business development efforts provide a basis for an optimistic outlook for 2006 and beyond. The national public attack on Class B levels of sludge treatment is rapidly moving the market to Class A technologies, of which our patented N-Viro processes are very cost competitive, and well established in the market place. There are currently over 35 facilities worldwide using the N-Viro Process, most of which have been using the N-Viro process for over 10 years. The development and patenting of new technologies for animal

manure treatment, bio-fuel and nematode control have the potential to expand our revenue base over the next five years and beyond. We believe we have sufficient liquidity to continue operations over the next twelve months.

### **Off-Balance Sheet Arrangements**

At March 31, 2006, we did not have any material commercial commitments, including guarantees or standby repurchase obligations, or any relationships with unconsolidated entities or financial partnerships, including entities often referred to as structured finance or special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

From time to time, during the normal course of business, we may make certain indemnities, commitments and guarantees under which we may be required to make payments in relation to certain transactions. These include: (i) indemnities to vendors and service providers pertaining to claims based on our negligence or willful misconduct and (ii) indemnities involving the accuracy of representations and warranties in certain contracts. Pursuant to Delaware law, we may indemnify certain officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. We also have director and officer insurance coverage that limits our exposure and enables us to recover a portion of any future amounts that we may pay for indemnification purposes. We believe the applicable insurance coverage is generally adequate to cover any estimated potential liability for which we may provide indemnification. The majority of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential for future payments we could be obligated to make. We have not recorded any liability for these indemnities, commitments and other guarantees in the accompanying Consolidated Balance Sheets.

## Contractual Obligations

The following table summarizes our contractual cash obligations at March 31, 2006, and the effect these obligations are expected to have on liquidity and cash flow in future periods:

|                                    | Note # | Total             | Payments Due By Period |                  |             |               |
|------------------------------------|--------|-------------------|------------------------|------------------|-------------|---------------|
|                                    |        |                   | Less than 1<br>year    | 1 - 3 years      | 4 - 5 years | after 5 years |
| Purchase obligations               | (1)    | \$ 221,100        | \$ 130,100             | \$ 91,000        | \$ -        | \$ -          |
| Long-term debt obligations         | (2)    | 82,430            | 82,430                 | -                | -           | -             |
| Operating leases                   | (3)    | 50,276            | 44,692                 | 5,584            | -           | -             |
| Capital lease obligations          |        | -                 | -                      | -                | -           | -             |
| Other long-term debt obligations   |        | -                 | -                      | -                | -           | -             |
| Total contractual cash obligations |        | <u>\$ 353,806</u> | <u>\$ 257,222</u>      | <u>\$ 96,584</u> | <u>\$ -</u> | <u>\$ -</u>   |

(1) Purchase obligations include agreements to purchase services that are enforceable and legally binding on the Company and that specify all significant terms and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.

(2) Amounts represent the expected cash payments of our long-term obligations.

(3) Amounts represent the expected cash payments of our operating lease obligations.

## Item 3. Controls and Procedures

### Disclosure Controls and Procedures

As of March 31, 2006, under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. We concluded that our disclosure controls and procedures were effective as of March 31, 2006, such that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### Internal Controls

There were no changes in our internal controls over financial reporting during the quarter ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal proceedings**

In June 2005, J. Patrick Nicholson, our former Chairman and CEO, filed a Demand for Arbitration, seeking damages of \$50,000 from us, based on a claimed breach of a Consulting Agreement dated August 28, 2003 between us and Mr. Nicholson. Mr. Nicholson also seeks rescission of his Consulting Agreement and reinstatement of a prior agreement between him and us, which was in effect prior to the order by the Delaware Chancery Court terminating a shareholder derivative suit. This arbitration proceeding was previously reported in our Form 10-QSB filed August 15, 2005. We are vigorously contesting Mr. Nicholson's claims in this proceeding. Discovery is still in process, and a hearing on the matter is scheduled for July 17-21, 2006.

On July 13, 2005, our Board of Directors voted to terminate for cause the Consulting Agreement with J. Patrick Nicholson, based on numerous specific instances of violations of the terms of the Consulting Agreement by him. The Consulting Agreement, filed as Exhibit B to the Form 8-K filed August 29, 2003, contained a term ending no earlier than five years from the date of the contract. Mr. Nicholson is a reporting beneficial owner of approximately 13.4% of our outstanding common stock, as of the date of his Form SC 13D/A filed October 24, 2005. Mr. Nicholson was being paid an aggregate of over \$92,000 per year under the Consulting Agreement, exclusive of any other payouts earnable.

On January 27, 2006, J. Patrick Nicholson applied to the Delaware Chancery Court for an order to compel us to allow him access to inspect our corporate and business books and records and our stockholder list, pursuant to a request under Section 220 of the Delaware General Corporation Law. No monetary relief is sought in this action. The matter is in the preliminary stages, and we contend that the documents sought by Mr. Nicholson in this action far exceed those to which he is entitled under Section 220, and principally relate to his claims in the arbitration described above. We are vigorously defending this action, but no discovery has been conducted, and no relief has been granted as of the date of this Form 10-QSB.

From time to time we are involved in legal actions arising in the ordinary course of business. With respect to these matters, we believe we have adequate legal defenses and/or provided adequate accruals for related costs such that the ultimate outcome will not have a material adverse effect on our future financial position or results of operations.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On March 1, 2006, the Company issued 12,500 shares of unregistered common stock to Timothy Kasmoch, Chief Executive Officer, pursuant to the terms of his employment agreement of February, 2006. See Note 4, "Contingencies".

### **Item 3. Defaults Upon Senior Securities**

None

### **Item 4. Submission of Matters to a Vote of Security Holders**

None

## Item 5. Other Information

- (a) None

## Item 6. Exhibits

- (a) Exhibits:

See Exhibit Index below.

- (b) Reports on Form 8-K:

We filed a report on Form 8-K on January 6, 2006, dated December 27, 2005, to announce the settlement of a disputed debt with a former law firm.

We filed a report on Form 8-K on February 2, 2006, dated January 27, 2006, to report that we had elected two new members to our Board of Directors, Timothy Kasmoch and James Hartung, and amended our By-Laws.

We filed a report on Form 8-K on February 21, 2006, dated February 14, 2006, to report that we had entered into an employment agreement with and appointed Timothy Kasmoch as President and Chief Executive Officer, terminated agreements with Daniel Haslinger and related parties, and replaced Mr. Haslinger as President and Chief Executive Officer.

We filed a report on Form 8-K on March 20, 2006, dated March 16, 2006, to report that we had entered into consulting agreements with two members of our Board of Directors, Daniel Haslinger and Carl Richard, and extended by an amendment to an existing consulting agreement with a third member of our Board, Terry Logan.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

N-VIRO INTERNATIONAL CORPORATION

Date: May 15, 2006

/s/ Timothy R. Kasmoch  
Timothy R. Kasmoch  
Chief Executive Officer and President  
(Principal Executive Officer)

Date: May 15, 2006

/s/ James K. McHugh  
James K. McHugh  
Chief Financial Officer, Secretary and Treasurer  
(Principal Financial & Accounting Officer)

## EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Document</u>  |
|--------------------|--|
| 3.1                | Amended and Restated Certificate of Incorporation, dated June 17, 1998 (incorporated by reference to Exhibit 3.2 to Form 10-K filed April 14, 2004).   |
| 3.2                | Amendment to the Certificate of Incorporation of the Company, dated November 13, 2003 (incorporated by reference to Exhibit 3.4 to Form 10-K filed April 14, 2004).  |
| 3.3                | Amended and Restated By-Laws of the Company, dated May 13, 2005 (incorporated by reference to Exhibit 3.3 to Form 10-QSB filed May 16, 2005).  |
| 3.4                | Amendment to the Certificate of Incorporation of the Company, dated July 6, 2005 (incorporated by reference to Exhibit 3.4 to Form 10-QSB filed August 15, 2005).  |
| 3.5                | Text of amendment to the Amended and Restated By-Laws of the Company, dated May 13, 2005 (incorporated by reference to Exhibit 99.1 to Form 10-K filed April 14, 2004).  |
| 3.6                | Amended and Restated By-Laws of the Company, dated January 27, 2006 (incorporated by reference to Exhibit 3.2 to Form 8-K filed February 2, 2006).   |
| 10.1               | Employment Agreement, dated June 14, 1999, between N-Viro International Corporation and Terry J. Logan (incorporated by reference to Exhibit 1 to the Form 8-K filed June 30, 1999).*  |
| 10.2               | Amended and Restated Employment Agreement, dated June 6, 2003, between N-Viro International Corporation and Michael G. Nicholson (incorporated by reference to Exhibit 99.1 to the Form 8-K filed June 9, 2003).*  |
| 10.3               | Business Loan Agreement dated February 26, 2003, between N-Viro International Corporation and Monroe Bank + Trust; letter of credit enhancement dated February 25, 2003 between N-Viro International Corporation and Messrs. J. Patrick Nicholson, Michael G. Nicholson, Robert P. Nicholson and Timothy J. Nicholson (all incorporated by reference to Exhibits 99.1 through 99.3 to the Form 8-K filed March 3, 2003). |
| 10.4               | Settlement Agreement and Release dated August 29, 2003 between N-Viro International Corporation and Strategic Asset Management, Inc.; Consulting Agreement dated August 28, 2003 between N-Viro International Corporation and J. Patrick Nicholson (all incorporated by reference to Item 5, Exhibit A and Exhibit B of the Form 8-K filed August 29, 2003).   |

- 10.5 Financial Public Relations Agreement dated September 15, 2005 between Strategic Asset Management, Inc. and N-Viro International Corporation (incorporated by reference to Exhibit 10.1 of Form 8-K dated October 12, 2005).
- 10.6 Warrant to Purchase 120,000 Shares of Common Stock dated September 15, 2005 between Strategic Asset Management, Inc. and N-Viro International Corporation (incorporated by reference to Exhibit 10.2 of Form 8-K dated October 12, 2005).
- 10.7 Employment Agreement, executed February 17, 2006 between Timothy R. Kasmoch and N-Viro International Corporation (incorporated by reference to Exhibit 10.1 to Form 8-K filed February 21, 2006).\*
- 10.8 Consulting Agreement between DJH Holdings, LLC and N-Viro International Corporation, effective February 13, 2006 (incorporated by reference to Exhibit 10.1 to Form 8-K filed March 20, 2006).\*
- 10.9 Consulting Agreement between Carl Richard and N-Viro International Corporation, effective February 13, 2006 (incorporated by reference to Exhibit 10.2 to Form 8-K filed March 20, 2006).\*
- 10.10 First Amendment to Consulting Agreement dated July 1, 2004 between Terry J. Logan and N-Viro International Corporation, effective February 13, 2006 (incorporated by reference to Exhibit 10.3 to Form 8-K filed March 20, 2006).\*
- 31.1 Certification of CEO Pursuant to Section 302 of the Sarbanes – Oxley Act of 2002.
- 31.2 Certification of CFO Pursuant to Section 302 of the Sarbanes – Oxley Act of 2002.
- 32.1 Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Indicates a management contract or compensatory plan or arrangement.

N-Viro International Corporation  
Certifications

I, Timothy R. Kasmoch, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of N-Viro International Corporation;
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 the 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 officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2006

/s/ Timothy R. Kasmoch  
President and Chief Executive Officer

N-Viro International Corporation  
Certifications

I, James K. McHugh, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of N-Viro International Corporation;
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 the 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 officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2006

/s/ James K. McHugh  
Chief Financial Officer

**Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Timothy R. Kasmoch, the Chief Executive Officer of N-Viro International Corporation, certify that (i) the Form 10-QSB fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-QSB fairly presents, in all material respects, the financial condition and results of operations of N-Viro International Corporation.

/s/ Timothy R. Kasmoch  
Timothy R. Kasmoch, Chief Executive Officer  
May 15, 2006

**Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, James K. McHugh, the Chief Financial Officer of N-Viro International Corporation, certify that (i) the Form 10-QSB fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-QSB fairly presents, in all material respects, the financial condition and results of operations of N-Viro International Corporation.

/s/ James K. McHugh  
James K. McHugh, Chief Financial Officer  
May 15, 2006