

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

FORM 10-K

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008
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

N-VIRO INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

34-1741211

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

3450 W. Central Avenue, Suite 328

Toledo, Ohio 43606

(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

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

Large accelerated filer _____ Accelerated filer _____

Non-accelerated filer _____ Smaller reporting company

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

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$9,350,000.

The number of shares of Common Stock of the registrant outstanding as of March 20, 2009 was 4,344,775.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in Part III of this Form 10-K is incorporated by reference from the registrant's Proxy Statement for the 2009 Annual Meeting of Stockholders, which proxy statement will be filed with the Securities and Exchange Commission on or before April 30, 2009.

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PART I

Cautionary Statement with Respect to Forward-Looking Statements

This annual report on Form 10-K 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; (vi) our inability to exploit existing or secure additional sources of revenues or capital to fund operations; (vii) a failure to collect upon or otherwise secure the benefits of existing contractual commitments with third parties, including our customers; and (viii) other factors and risks identified in this Form 10-K, including under the caption "Risk Factors." This list provides examples of factors that could affect the results described by forward-looking statements contained in this Form 10-K; however, this list is not exhaustive and many other factors could impact our 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-K 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-K 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-K. 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.

Item 1. Business

General

We were incorporated in Delaware in April, 1993, and became a public company in October 1993. We own and sometimes license various N-Viro Processes, patented technologies to treat and recycle wastewater and other bio-organic wastes, utilizing certain alkaline and mineral by-products produced by the cement, lime, electric utilities and other industries. The N-Viro Process is a patented process for the treatment and recycling of bio-organic wastes, utilizing certain alkaline by-products produced by the cement, lime, electric utilities and other industries. To date, the N-Viro Process has been commercially utilized for the recycling of wastewater sludge from municipal wastewater treatment facilities. N-Viro Soil™, produced according to the N-Viro Process specifications, is an "exceptional quality" sludge product under the 40 CFR Part 503 Sludge Regulations under the Clean Water Act of 1987 (the "Part 503 Regs"). See "The N-Viro Process," below.

Our business strategy is to market our N-Viro Technologies which produces an "exceptional quality" sludge product, as defined in the Part 503 Regs, with multiple commercial uses. In this strategy, the primary focus is to identify allies, public and private, who will allow the opportunity for N-Viro build own and operate N-Viro facilities. Currently the company operates two biosolid process facilities located in Toledo Ohio and Daytona Florida. Our goal is to continue to operate these facilities and aggressively market our N-Viro BioDry™ and N-Viro Fuel™ technologies. These patented processes are best suited for current and future demands of both waste treatment as well as domestic and international pressures for clean, renewable alternative fuel sources.

The N-Viro Process

The N-Viro Process is a patented process for the treatment and recycling of bio-organic wastes, utilizing certain alkaline by-products produced by the cement, lime, electric utilities and other industries. To date, the N-Viro Process has been commercially utilized for the recycling of wastewater sludge from municipal wastewater treatment facilities. N-Viro Soil™ produced according to the N-Viro Process specifications is an "exceptional quality" sludge product under the Part 503 Regs.

The N-Viro Process involves mixing the wastewater sludge with an alkaline admixture and then subjecting the mixture to a controlled period of storage, mechanical turning and accelerated drying in which a blending of the sludge and the alkaline admixture occurs. The N-Viro Process stabilizes and pasteurizes the wastewater sludge, reduces odors to acceptable levels, neutralizes or immobilizes various toxic components and generates N-Viro Soil™, a product which has a granular appearance similar to soil and has multiple commercial uses. These uses include agricultural lime, soil enrichment, top soil blend, landfill cover and capping, and land reclamation.

The alkaline admixture used in the N-Viro Process consists of by-product dusts from cement or lime kilns, certain fly ashes and other products of coal, coke or petroleum combustion and by-product dusts from sulfuric acid "scrubbers" used in acid rain remediation systems and from fluidized bed coal-fired systems used in electric power generation. The particular admixture that is used usually depends upon cost and availability in local markets. In certain cases, commercial lime may also be added to the admixture.

We are a distributor of alkaline admixture. We also work with established by-product marketers. We generally charge a mark-up over our cost for alkaline admixture sold directly by us.

N-Viro Soil™

N-Viro Soil™ is sold for agricultural use as a bio-organic and mineral fertilizer with agricultural liming and nutrient values, as landfill cover material, as a topsoil blending ingredient and for land reclamation projects. We estimate that approximately twenty percent of the N-Viro Soil™ produced is utilized at landfills for cover material, small amounts are sold for land reclamation and similar projects, and a substantial portion of the remainder is sold for agricultural use or as a topsoil blend. Although the use of N-Viro Soil™ is not subject to any federal regulations or restrictions, each N-Viro facility is typically required to obtain a state and/or local permit for the sale of N-Viro Soil™. In addition, many states and/or local governments require site-specific permits for the use of sludge products in bulk amounts.

N-Viro Fuel™

N-Viro Fuel™ is a relatively new and patented biomass alternative energy fuel that has physical and chemical characteristics similar to coal and is created from municipal biosolids and other organic wastes like manure and pulp and paper sludge. N-Viro Fuel is manufactured from a variety of organic wastes by blending the waste material with one or more mineral by-products and drying the mixture. The resulting product is blended with coal or petroleum coke and burned as a partial coal substitute in coal-fired power plants. An important advantage of the waste biomass-derived fuel is the ammonia that is released from the waste in the process. This ammonia is available to be used as a substitute for ammonia or urea for NOx removal. We recently announced that N-Viro Fuel has satisfied guidelines set forth by the U.S. Environmental Protection Agency (EPA) to qualify as an alternative energy source that may be utilized in commercial power generation. The N-Viro Fuel technology, utilizing an alkaline/heat process to produce a fuel product, satisfies all requirements of the EPA 40 CFR part 503 regulations and can be blended with coal for energy production or land applied for agricultural use as N-Viro Soil™. Our technologies can convert waste products that traditionally are landfilled, into safe, beneficial and renewable long-term energy solutions. Attaining this status means that N-Viro Fuel technology is now eligible to qualify for certain economic incentives that are granted alternative energy technologies, and it is also a catalyst for attaining permits in each state in a more timely manner. We plan to accelerate its development efforts as this designation is an important factor for its potential energy partners.

N-Viro Process Facilities

Our earliest facility is in Toledo, Ohio and has been managed by us through a Contract Management Agreement with the City of Toledo since our inception. Revenue generated from and related to the Toledo operation accounts for about 39% of our total revenue. We process a majority of Toledo's wastewater sludge and sell the resulting N-Viro Soil™ product. In 2004, the City exercised its option to renew the contract for an additional five years through 2009. Currently, the contract is in its twentieth year of operation. We consider our relationship with the City of Toledo to be satisfactory.

In December 2006, we acquired Headwaters Inc.'s ownership interest in Florida N-Viro L.P. (Florida N-Viro), which was the majority owner and operator of a municipal biosolids processing plant located in Volusia

County, Florida. The plant had been jointly owned by us and Pennsylvania-based VFL Technology Corporation (VFL) - a subsidiary of Headwaters - since 1995. The plant currently processes regional biosolids for multiple communities and currently maintains contracts with the City of Altamonte Springs, the City of Englewood, Seminole County, the City of Palm Coast, the City of Port Orange, the Tohopekaliga Water Authority and Volusia County. Headwaters Resources, Inc. (HRI), an affiliate of VFL, under a contractual arrangement, is at this time the sole source supplier of by-products to Florida N-Viro's operating facility, unless HRI can not supply the full requirements of Florida N-Viro for such by-products.

Including the facilities in Toledo, Ohio and Volusia County, Florida, we estimate there are currently more than 25 wastewater treatment facilities throughout the world treating sludge using the N-Viro Process. We estimate that these facilities are treating and recycling sludge at an annualized rate of over 94,000 dry tons per year. In addition, there are several licensees not currently operating, including both international and domestic contractors or public generators, who are in the process of developing or designing site-specific N-Viro facilities.

We have licensed four treatment facilities to use an earlier sludge treatment process that is designed to produce a sludge product that meets only Class B pathogen levels, and therefore does not produce an "exceptional quality" sludge product under the Part 503 Regs. Royalty payments from sludge processed at the four facilities using such earlier technology currently account for less than two percent of total royalty payments to us and we do not actively market the use of this process.

Sales and Marketing of N-Viro Process

Currently, the company markets its technology via internal sales efforts. All domestic sales and marketing is controlled by management. The primary focus of our marketing efforts is toward the N-Viro BioDry™ and N-Viro Fuel™ technologies. These patented processes are best suited for current and future demands of both waste treatment as well as domestic and international pressures for clean, renewable alternative fuel sources.

In certain countries outside the United States, we license the N-Viro Process through agents. In their respective territories, the Agents market licenses for the N-Viro Process, serve as distributors of alkaline admixture, oversee quality control of the N-Viro Process and N-Viro Soil™, enforce the terms of the license agreements with licensees and market N-Viro Soil™ (or assist licensees in marketing N-Viro Soil™). In general, the Agents have paid one-time, up-front fees to us for the rights to market or use the N-Viro Process in their respective territories. Typically, the agreements with the agents provide for us to receive a portion of the up-front license fees, ongoing royalty fees paid by the licensees, a portion of the proceeds from the distribution and resale of alkaline admixture, and the sale of N-Viro Soil™. Agents have total responsibility and control over the marketing and contracts for N-Viro technology subject only to license models or minimum agreements with us.

The following table sets forth our Agents and the territorial rights of each Agent:

The Agents	
Agent	Territory
Bio-Recycle Pty. Ltd.	Australia, New Zealand and Singapore
CRM Technologies.....	Israel, Greece and Eastern Europe
EIEC	Spain
Itico.....	Egypt, North Africa, The Middle East
N-Viro Filipino.....	Philippines
South Africa N-Viro	All Africa except North Africa

Earnings Variation Due to Business Cycles and Seasonal Factors. Our operating results can experience quarterly or annual variations due to business cycles, seasonality and other factors. During the last fiscal quarter of 2008, approximately 91% of our revenue was from management operations, 9% from other domestic operations and nothing from foreign operations or 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 and interest rates, as well as other factors. In addition, operating results of some of our business segments are influenced,

along with other factors such as interest rates, by particular business cycles and seasonality. See Notes to the Financial Statements contained in Item 8 hereof.

Risks of Doing Business in Other Countries. We conduct a very small amount of business in markets outside the United States, and expect 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. We have not entered into any currency swap agreements which may reduce these risks. We may enter into such agreements in the future if it is deemed necessary to do so. We cannot predict the full impact of this economic instability, but it could have a material adverse effect on revenues and profits.

Research and Development

Research and development on the N-Viro Technologies had been, through 2005, performed primarily by BioCheck Laboratories, a former wholly-owned subsidiary of ours, and Dr. Terry J. Logan. Dr. Logan, a long-time director who resigned from our Board of Directors in November 2006, continues to direct our research and patent development work under a consulting agreement that became effective July 1, 2004 and currently runs through June 30, 2009, as extended by a one-year agreement signed in April 2008. Our research and development expenses were under \$10,000 in 2008 and 2007.

We continue to investigate methods to shorten drying time, improve the BioDry™ process, substitute various other materials for use as alkaline admixture and improve the quality and attractiveness of N-Viro Soil™ to a variety of end-users. Several developments are the subject of issued patents, including the use of carbon dioxide in the N-Viro Process as a means to (i) reduce by-product carbon dioxide emissions from industrial processes by immobilizing carbon dioxide in N-Viro Soil™ and (ii) improve the quality and value of N-Viro Soil™. In addition, we have developed a dryer system which reduces processing time while continuing to permit the survival of beneficial microflora. Our BioBlend™, which uses N-Viro Soil™ as a reagent to accelerate and deodorize yard waste composting, is being utilized to produce topsoil at the Englewood, Ohio N-Viro facility and at several other licensed facilities.

In early 2007 we performed a full scale test of the N-Viro Fuel™ product at the T.B. Simon Power Facility located on the campus of Michigan State University in conjunction with them. The results of the test has encouraged us to focus primarily on the development of the N-Viro Fuel technology. Our efforts have been focused toward the development of what could be the first N-Viro Fuel facility located on the campus of Michigan State University. Further discussion of our patent development can be found in the section “Patents and Proprietary Rights”.

Current Developments

We are currently in discussions with several companies in the cement and fuel/power generation 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.

Industry Overview

Disposal. Landfilling, incineration and ocean dumping have traditionally provided inexpensive, reliable methods of sludge disposal. Ocean dumping was banned in the United States in December 1992. Under the Part 503 Regs, landfilling and incineration remain permissible sludge management alternatives but have become subject to more stringent regulatory standards. The vast majority of states have some site restrictions or other management practices governing the disposal of sludge in landfills. Amendments to the Clean Air Act governing incineration and disposal of residual ash also impose stricter air emission standards for incineration in general, and the Part 503 Regs impose additional specific pollutant limits for sludge to be incinerated and for the resulting air emissions.

Surface disposal of sludge involves the placement of sludge on the land at a dedicated site for disposal purposes. The Part 503 Regs subject surface disposal to increased regulation by requiring, among other things, runoff and leachate collection systems, methane monitoring systems and monitoring of, and limits on, pollutant levels. In

addition, sludge placed in a surface disposal site is required to meet certain standards with respect to pathogen levels relating to coliform or salmonella bacteria counts ("Class B" pathogen levels), levels of various pollutants, including metals, and elimination of attractiveness to pests, such as insects and rodents.

Land Application for Beneficial Use. Land application for beneficial use involves the application of sludge or sludge-based products, for non-disposal purposes, including agricultural, silvicultural and horticultural uses and for land reclamation. Under the Part 503 Regs, N-Viro Soil™ is a product that meets certain stringent standards with respect to pathogen levels relating to coliform, salmonella, enteric viruses and viable helminth ova counts ("Class A" pathogen levels), levels of various pollutants, including metals, and elimination of attractiveness to pests, such as insects and rodents, are considered by the EPA to be "exceptional quality" products. The Class A pathogen levels are significantly more stringent than the Class B pathogen levels. Class A N-Viro Soil™ can be land applied as a fertilizer or lime agent without regulation in most states.

"Exceptional quality" products are treated by the EPA as fertilizer material, thereby exempting these products from federal restrictions on their agricultural use or land application. N-Viro Soil™ that is produced according to N-Viro Process specifications meets the pollutant concentration limits and other standards set forth in the Part 503 Regs and, therefore, is an "exceptional quality" product that exceeds the EPA's standards for unrestricted agricultural use and land application. Lower quality sludge, including sludge-based products that meet Class B pathogen levels and certain pollutant control and pest attraction requirements, may also be applied to the land for beneficial use but are subject to greater record keeping and reporting requirements and restrictions governing, among other items, the type and location of application, the volume of application and limits on cumulative levels of metals. Sludge applied to the land for agricultural use in all cases must meet Class B pathogen levels and, if applied in bulk, require an EPA permit.

Competition

We are in direct and indirect competition with other businesses, including disposal and other wastewater sludge treatment businesses, some of which are larger and more firmly established and may have greater marketing and development budgets and capital resources than us. There can be no assurance that we will be able to maintain a competitive position in the sludge treatment industry.

We compete against companies in a highly competitive market and have fewer resources than most of those companies. Our business competes within and outside the United States principally on the basis of pricing, reliability of our services provided, product quality and specifications and technical support. Competitive pressures and other factors could cause us to lose market share or could result in decreases in prices, either of which could have a material adverse effect on our financial position and results of operations.

An EPA survey estimated that sludge generators in the United States utilized landfilling, incineration, surface disposal and ocean dumping as sludge management alternatives for approximately two-thirds of wastewater sludge generated. Although ocean dumping has been banned, other methods of sludge disposal remain permissible sludge management alternatives under the Part 503 Regs, and in many instances will be less expensive than treatment methods, including the N-Viro Process.

Sludge treatment alternatives other than disposal include processes, such as aerobic and anaerobic digestion and lime stabilization, that typically produce lower quality sludge products, and other processes, such as pelletization, composting, high heat lime sterilization and high heat en-vessel lime pasteurization, that produce "exceptional quality" sludge products. Some of these processes have established a significant market presence, and we cannot predict whether any of such competing treatment processes will be more or less successful than the N-Viro Process.

Environmental Regulation

Various environmental protection laws have been enacted and amended during recent decades in response to public concern over the environment. Our operations and those of our licensees are subject to these evolving laws and the implementing regulations. The United States environmental laws which we believe are, or may be, applicable to the N-Viro Process and the land application of N-Viro Soil™ include Resource Conservation and Recovery Act, or RCRA, as amended by the Hazardous and Solid Waste Amendments of 1984, or HSWA, the Federal Water Pollution Control Act of 1972, or the Clean Water Act, the Clean Air Act of 1970, as amended, or the Clean Air Act, the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, the Pollution Prevention

Act of 1990 and the Federal Insecticide, Fungicide and Rodenticide Act, or FIFRA. These laws regulate the management and disposal of wastes, control the discharge of pollutants into the air and water, provide for the investigation and remediation of contaminated land and groundwater resources and establish a pollution prevention program. Many of these laws have international counterparts, particularly in Europe and elsewhere in North America. In addition, various states have implemented environmental protection laws that are similar to the applicable federal laws and, in addition, states may require, among other things, permits to construct N-Viro facilities and to sell and/or use N-Viro Soil™. There can be no assurance that any such permits will be issued.

The Part 503 Regulations. Historically, sludge management has involved either disposal, principally by landfilling, incineration, ocean dumping and surface disposal, or land application for beneficial use. Sewage sludge and the use and disposal thereof is regulated under the Clean Water Act. On February 19, 1993, the EPA published the Part 503 Regs under the Clean Water Act implementing the EPA's "exceptional quality" program. These regulations establish sludge use and disposal standards applicable to approximately 35,000 publicly and privately owned wastewater treatment plants in the United States, including approximately 13,000 to 15,000 publicly owned treatment works, or POTWs. Under the Part 503 Regs, sludge products that meet certain stringent standards are considered to be "exceptional quality" products and are not subject to any federal restrictions on agricultural use or land application. N-Viro Soil™ produced according to N-Viro Process specifications is an "exceptional quality" product. Lower quality sludge products are subject to federal restrictions governing, among other items, the type and location of application, the volume of application and the cumulative application levels for certain pollutants. Agricultural application of these lower quality sludges in bulk amounts also requires an EPA permit. Agricultural and land applications of all sludge and sludge products, including N-Viro Soil™ and other "exceptional quality" products, are typically subject to state and local regulation and, in most cases, require a permit.

In order to ensure compliance with the Part 503 Regs, we review the results of regular testing of sludge required by the EPA to be conducted by wastewater treatment plants, and it tests N-Viro Soil™ produced at N-Viro facilities on a regular basis. In general, we do not license or permit the ongoing use of the N-Viro Process to treat any sludge that may not be processed into an "exceptional quality" sludge product. In five N-Viro facilities, however, we have permitted the use of the N-Viro Process to produce a product that is not an "exceptional quality" sludge product due to the high pollutant levels of the resulting product. This product is not considered to be N-Viro Soil™ and is used solely for landfill cover at adjacent landfills. In addition, we have previously licensed for use at five treatment facilities an earlier sludge treatment process that is designed to produce a sludge product that meets only Class B pathogen levels, and therefore does not produce an "exceptional quality" product.

Although N-Viro Soil™ exceeds the current federal standards imposed by the EPA for unrestricted agricultural use and land application, state and local authorities are authorized under the Clean Water Act to impose more stringent requirements than those promulgated by the EPA. Most states require permits for land application of sludge and sludge based products and several states, such as Rhode Island, Massachusetts and New Jersey, currently have regulations that impose more stringent numerical concentration limits for certain pollutants than the federal rules.

The Resource Conservation and Recovery Act. RCRA regulates all phases of hazardous waste generation, management and disposal. Waste is subject to regulation as a hazardous waste under RCRA if it is a solid waste specifically listed as a hazardous waste by the EPA or exhibits a defined hazardous characteristic. Although domestic sewage and mixtures of domestic sewage and other wastes that pass through a sewer system to a POTW are specifically exempted from the definition of solid waste, once treated by the POTW, the sewage sludge is considered a solid waste. However, such sewage sludge is not considered a hazardous waste unless it exhibits a hazardous characteristic. While it is possible that sewage sludge could exhibit the toxicity characteristic, we believe that regular tests for hazardous constituent levels provide assurance that the sewage sludge used in the N-Viro Process does not exhibit the toxicity characteristic. The alkaline admixtures used in the N-Viro Process are specifically exempted from RCRA regulation by the so-called Bevill Amendments to RCRA. Although the benefit of the exemption provided by the Bevill Amendments can be lost if the alkaline admixture is derived from or mixed with a hazardous waste, we have adopted and implemented policies and operational controls, including review of operating permits held by alkaline admixture suppliers and periodic testing of such admixtures, to ensure that the alkaline admixtures used in the N-Viro Process by us and our licensees are not derived from or mixed with hazardous wastes.

Although neither the alkaline admixture nor wastewater sludge used in the N-Viro Process are regulated as hazardous waste under RCRA, states may impose restrictions that are more stringent than federal regulations.

Accordingly, the raw materials used in the N-Viro Process may be regulated under some state hazardous waste laws as "special wastes," in which case specific storage and record keeping requirements may apply.

The Clean Air Act. The Clean Air Act empowers the EPA to establish and enforce ambient air quality standards and limits of emissions of pollutants from specific facilities. The Clean Air Act Amendments of 1990, or the Clean Air Act Amendments, impose stringent requirements upon owners and operators of facilities that discharge emissions into the air.

Existing N-Viro facilities generally have installed "baghouse" technology for alkaline admixture storage and handling operations in order to collect airborne dust. At present, we do not believe that any N-Viro facilities will be required to undertake any further measures in order to comply with the Clean Air Act or the existing Clean Air Act Amendments. Ammonia odors of varying strength typically result from sludge treatment processes, including the N-Viro Process. A number of N-Viro facilities have installed ammonia "scrubbers" to reduce ammonia odors produced to varying degrees by the N-Viro Process. The installation of ammonia "scrubbers" is not required by the Clean Air Act or the existing Clean Air Act Amendments. However, we or our licensees may be required under the Occupational Safety and Health Act and state laws regulating nuisances, odors and air toxic emissions to install odor control technology to limit ammonia emissions and odors produced during the N-Viro Process, particularly at N-Viro facilities located near populated residential areas. The amount of ammonia gas produced is dependent upon the type of sludge being treated and the amount and type of alkaline admixture being used.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980. CERCLA imposes strict, joint and several liability upon owners and operators of facilities where a release of hazardous substances has occurred, upon parties who generated hazardous substances into the environment that were released at such facilities and upon parties who arranged for the transportation of hazardous substances to such facilities.

We believe that the N-Viro Process poses little risk of releasing hazardous substances into the environment that presently could result in liability under CERCLA. Although the sewage sludge and alkaline waste products could contain hazardous substances (as defined under CERCLA), we have developed plans to manage the risk of CERCLA liability, including training of operators, regular testing of the sludge and the alkaline admixture to be used in the N-Viro Process and reviewing incineration and other permits held by the entities from whom alkaline admixtures are obtained.

Other Environmental Laws. The Pollution Prevention Act of 1990 establishes pollution prevention as a national objective, naming it a primary goal wherever feasible. The act states that where pollution cannot be prevented, materials should be recycled in an environmentally safe manner. We believe that the N-Viro Process contributes to pollution prevention by providing an alternative to disposal.

The alkaline admixtures used in the N-Viro Process may be required to be registered as pesticides under FIFRA because of their effect on pathogens in sludge. The EPA does not currently regulate commercial lime or any alkaline by-products under FIFRA and has not attempted to assert such jurisdiction to date. In the event the alkaline by-products are required to be registered under FIFRA, we would likely be required to submit certain data as part of the registration process and might be subject to further federal regulation.

State Regulations. State regulations typically require an N-Viro facility to obtain a permit for the sale of N-Viro Soil™ for agricultural use, and may require a site-specific permit by the user of N-Viro Soil™. In addition, in some jurisdictions, state and/or local authorities have imposed permit requirements for, or have prohibited, the land application or agricultural use of sludge products, including "exceptional quality" sludge products. Certain of our licensees operate in jurisdictions that require permits and have been able to obtain them for the N-Viro product. There can be no assurance that any such permits will be issued or that any further attempts to require permits for, or to prohibit, the land application or agricultural use of sludge products will not be successful.

In addition, many states enforce landfilling restrictions for non-hazardous sludge. These regulations typically require a permit to sell or use sludge products as landfill cover material. There can be no assurance that N-Viro facilities or landfill operators will be able to obtain required permits.

Environmental impact studies may be required in connection with the development of future N-Viro facilities. Such studies are generally time consuming and may create delays in the construction process. In addition,

unfavorable conclusions reached in connection with such a study could result in termination of, or expensive alterations to, the N-Viro facility being developed.

The costs of compliance are typically borne by our licensees, except in the case of direct sludge processing into a facility. Normally this cost is not material to us in relation to the total contract revenue.

Employees

As of December 31, 2008, we had 32 employees. Six of our employees were engaged in sales and marketing; three were in finance and administration and twenty-three were in operations. We consider our relationship with our employees to be satisfactory.

We are a party to a collective bargaining agreement (the "Labor Agreement") covering four employees of National N-Viro Tech, Inc., our wholly-owned subsidiary. The employees that are covered by the Labor Agreement work at the Toledo, Ohio N-Viro facility, which is operated by us for the City of Toledo on a contract management basis. These employees are members of the International Brotherhood of Teamsters, Chauffeurs, Warehouseman and Helpers Local Union No. 20, and we consider our relationship with the organization to be satisfactory. In 2005, the Labor Agreement was extended through October 31, 2009.

Patents and Proprietary Rights

We have several patents and licenses relating to the treatment and processing of biosolids. While there is no single patent that is material to our business, we believe that our aggregate patents are important to our prospects for future success. However, we cannot be certain that future patent applications will be issued as patents or that any issued patents will give us a competitive advantage. It is also possible that our patents could be successfully challenged or circumvented by competition or other parties. In addition, we cannot assure that our treatment processes do not infringe patents or other proprietary rights of other parties.

We applied for two patents that were approved in 2004 for the use of mineral by-products to enhance heating, drying and disinfection of organic wastes under non-alkaline conditions. N-Viro is actively marketing its manure treatment technology, primarily to the large dairies and poultry operations, and continues to develop and market the N-Viro Fuel™ technology. The new federal energy act may provide incentives for the use of renewable biomass fuels, such as N-Viro Fuel™.

We also hold several patents relating to N-Viro Fuel™. In the N-Viro Fuel™ process, waste products, which can include domestic sewage sludge, manures and other materials, are treated with mineral by-products, dried by a mechanical dryer, and converted into a renewable fuel that can be used as a substitute for coal in coal-fired boilers and kilns.

Some early N-Viro patents were developed jointly with the former Medical College of Ohio, now under the name of the University of Toledo ("UT"). Because of the joint development of early N-Viro patents with the UT, we agreed that the rights of UT to any intellectual property that is being developed, patentable or patented, would generate a royalty payable by us to UT. We also agreed with UT that claims to the traditional N-Viro Soil™ process was one-quarter of one percent (¼%) of technical revenues until expiration of those patents. UT rights to BioBlend™ and certain other N-Viro technologies range from 2% to 4% of technical revenues derived from these newer technologies. Cumulative royalties paid to UT through December 31, 2008 were approximately \$65,000, and no amount was expensed during 2008.

In addition, we make use of our trade secrets or "know-how" developed in the course of our experience in the marketing of our services. To the extent that we rely upon trade secrets, unpatented know-how and the development of improvements in establishing and maintaining a competitive advantage in the market for our services, we can provide no assurances that such proprietary technology will remain a trade secret or that others will not develop substantially equivalent or superior technologies to compete with our services.

Securities and Exchange Commission

As a public company, we are required to file periodic reports, as well as other information, with the Securities and Exchange Commission (SEC) within established deadlines. Any document we file with the SEC may be viewed or copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Additional information regarding the Public Reference Room can be obtained by calling the SEC at (800) SEC-0330. Our SEC filings are also available to the public through the SEC's web site located at www.sec.gov.

We maintain a corporate Web site at www.nviro.com, on which investors may access free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q and amendments to those reports as soon as is reasonably practicable after furnishing such material with the SEC. In addition, we will voluntarily provide electronic or paper copies of our filings free of charge upon request at (419) 535-6374 or c/o James K. McHugh, Chief Financial Officer at jmchugh@nviro.com.

Item 1A. Risk Factors

We have a history of losses and there can be no assurances regarding if and when we will achieve profitability. If we are unable to achieve profitable operations, we may need to raise additional capital to continue our operations, which may not be available on commercially reasonable terms or at all, and which may dilute our stockholders.

Since 2000, we have experienced net losses and we have not been consistently profitable on an annual basis. For the fiscal years ended December 31, 2008 and December 31, 2007, we incurred net losses of \$1.2 million and \$1.5 million, respectively. We believe our history of net losses is primarily due to our inability to add enough new sources of revenue to replace decreasing business from existing sources of revenue and, more recently, through a shift of our business toward lower margin products and services. Further, through the year ended December 31, 2007, we experienced much higher than expected expenditures for stock-related fees and compensation, legal costs surrounding litigation and the direct time of management, staff and our Board relating to this litigation, and increases in our selling, general and administrative expenses in excess of our increases in gross revenues. To achieve profitability, we must accomplish numerous objectives, including growth in our business, the development of new products and commercial relationships, and decreasing our costs. We can not foresee with any certainty whether we will be able to achieve these objectives in the future. Accordingly, we may not generate sufficient net revenue to achieve profitability.

Failure to maintain effective internal controls could have a material adverse effect on our business, operating results and stock price.

We have evaluated and will continue to evaluate our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires an annual management assessment of the design and effectiveness of our internal controls over financial reporting. For the year ended December 31, 2007, we identified a material weakness in our internal controls over financial reporting due to a lack of personnel to sufficiently monitor and process transactions. Due to our continuing lack of financial resources to hire and train accounting and financial personnel, we have not yet remedied this material weakness. While we are not aware of any material errors to date, our inability to maintain the adequate internal controls may result in a material error in our financial statements. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we experience a material error in our financial statements or if we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

Compliance with environmental laws and regulations may reduce, delay or prevent our realization of license revenues.

Our licensees and their operations are subject to increasingly strict environmental laws and regulations, including laws and regulations governing the emission, discharge, disposal and transportation of certain substances and related odor. Wastewater treatment plants and other plants at which our biosolids products or processes may be implemented are usually required to have permits, registrations and/or approvals from state and/or local governments

for the operation of such facilities. Some of our licensee's facilities require air, wastewater, storm water, biosolids processing, use or siting permits, registrations or approvals. These licensees may not be able to maintain or renew their current permits or registrations or to obtain new permits or registrations. The process of obtaining a required permit or registration can be lengthy and expensive. They may not be able to meet applicable regulatory or permit requirements, and therefore may be subject to related legal or judicial proceedings that could have a materially adverse effect on our income derived from these licensees.

Any of the permits, registrations or approvals noted above, or related applications may be subject to denial, revocation or modification, or challenge by a third party, under various circumstances. In addition, if new environmental legislation or regulations are enacted or existing legislation or regulations are amended or are enforced differently, these licensees may be required to obtain additional, or modify existing, operating permits, registrations or approvals.

Maintaining, modifying or renewing current permits or registrations or obtaining new permits or registrations after new environmental legislation or regulations are enacted or existing legislation or regulations are amended or enforced differently may be subject to public opposition or challenge. Much of this public opposition and challenge, as well as related complaints, relates to odor issues, even when our licensees are in compliance with odor requirements and even though the licensees have worked hard to minimize odor from their operations. Public misperceptions about the business and any related odor could influence the governmental process for issuing such permits or registrations or for responding to any such public opposition or challenge. Community groups could pressure local municipalities or state governments to implement laws and regulations which could increase our licensees' costs of their operations that in turn could have a material and adverse effect on our business and financial condition.

Our ability to grow our revenues and operations may be limited by competition.

We provide a variety of technology and services relating to the treatment of wastewater residuals. We are in direct and indirect competition with other businesses that provide some or all of the same services including regional residuals management companies and national and international water and wastewater operations/privatization companies, technology suppliers, municipal solid waste companies and farming operations. Many of these competitors are larger and have significantly greater capital resources.

We derive a substantial portion of our revenue from services provided under municipal contracts, and many of these are subject to competitive bidding. We also intend to bid on additional municipal contracts, however, and may not be the successful bidder. In addition, some of our contracts will expire in the future and those contracts may not be renewed or may be renewed on less attractive terms. If we are not able to replace revenues from contracts lost through competitive bidding or from the renegotiation of existing contracts with other revenues within a reasonable time period, the lost revenue could have a material and adverse effect on our business, financial condition and results of operation.

Our customer contracts may be terminated prior to the expiration of their term.

A substantial portion of our revenue is derived from services provided under contracts and agreements with existing licensees. Some of these contracts, especially those contracts with large municipalities, provide for termination of the contract by the customer after giving relative short notice (in some cases as little as ten days). In addition, some of these contracts contain liquidated damages clauses, which may or may not be enforceable in the event of early termination of the contracts. If one or more of these contracts are terminated prior to the expiration of its term, and we are not able to replace revenues from the terminated contract or receive liquidated damages pursuant to the terms of the contract, the lost revenue could have a material and adverse effect on our business, financial condition and results of operations.

A significant amount of our business comes from a limited number of customers and our revenue and profits could decrease significantly if we lost one or more of them as customers. Further, the agreement with our most significant customer expires at the end of 2009, and our failure to renew that agreement on favorable terms would likely have a material adverse effect on our business, financial conditions and results of operations.

Our business depends on provision of services to a limited number of customers. One or more of these customers may stop contracting for services from us or may substantially reduce the amount of services we provide

them. Any cancellation, deferral or significant reduction in the services we provide these principal customers or a significant number of smaller customers could seriously harm our business and financial condition. For the years ended December 31, 2008 and 2007, our single largest customer accounted for approximately 39% and 38%, respectively, of our revenues and our top three customers accounted for approximately 62% and 54%, respectively, of our revenues. Our agreement with our largest customer - which represented approximately 39% of our revenues in 2008 - is due to expire at the end of 2009. We are attempting to negotiate a renewal of that agreement, but we cannot assure you that we will be able to secure such a renewal at all or on terms that are as favorable as the current agreement. Our failure to renew that agreement on favorable terms would likely have a material adverse effect on our business, financial conditions and results of operations.

The current economic downturn may cause us to experience delays of payment from our customers.

Our accounts receivable are derived primarily from municipal or local governments. Although our collection history has been good, from time to time a customer may not pay us on a timely basis because of adverse market conditions. In light of the current economic downturn, we may experience larger than expected delays in receiving payments on our accounts receivable. Given our history of losses and our limited cash resource, any significant payment delay by one of our customers, may force us to delay payment to our creditors, which may have a material and adverse effect on our business, financial condition and results of operations.

We are affected by unusually adverse weather conditions.

Our business is adversely affected by unusual weather conditions and unseasonably heavy rainfall which can temporarily reduce the availability of land application sites in close proximity to our operations. In addition, revenues and operational results are adversely affected during months of inclement weather which limits the level of land application that can be performed. Long periods of adverse weather could have a material negative effect on our business and financial condition. For example, our Toledo, Ohio operation is affected by unusually adverse weather conditions by lowering the demand for N-Viro Soil™ distribution to the local agricultural community.

Fuel cost variation could adversely affect our operating results and expenses.

The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including demand for oil and gas, actions by OPEC and other oil and gas producers, and war in oil producing countries. Because fuel is needed for the trucks that transport the processing materials and supplies for our customers, price escalations or reductions in the supply of fuel could increase operating expenses and have a negative impact on the results of operations. We are not always able to pass through all or part of the increased fuel costs due to the terms of certain customers' contracts and the inability to negotiate such pass through costs in a timely manner.

We are highly dependent on the services of our management team, the loss of any of whom may have a material adverse effect on our business and financial condition.

We have entered into employment agreements with our Chief Executive Officer, Timothy Kasmoch, and our V.P. of Development and Chief Counsel, Robert Bohmer, each of which contains non-compete and other provisions. The laws of each state differ concerning the enforceability of non-competition agreements. We cannot predict with certainty whether or not a court will enforce a non-compete covenant in any given situation based on the facts and circumstances at that time. If one of our key executive officers were to leave our employ and the courts refused to enforce the non-compete covenant, we might be subject to increased competition, which could have a material and adverse effect on our business and financial condition.

Our intellectual property may be misappropriated or subject to claims of infringement.

We attempt to protect our intellectual property rights through a combination of patent, trademark, and trade secret laws, as well as licensing agreements. Our failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business and financial condition.

Our competitors, many of whom have substantially greater resources and have made substantial investments in competing technologies, may have applied for or obtained, or may in the future apply for and obtain, patents that will prevent, limit or otherwise interfere with our ability to offer services.

We also rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise obtain access to our unpatented technology. If we are unable to maintain the proprietary nature of our technologies, we could be materially adversely affected.

Volatility in the trading price of our common stock could negatively impact the price of our common stock, and may eliminate a source of our potential revenue from exercises of stock options and stock purchase warrants.

During the period from January 1, 2007 through March 20, 2009, our common stock closing price fluctuated between a high of \$4.25 and a low of \$1.25. The trading price of our common stock could be subject to wide fluctuations in response to many factors, some of which are beyond our control, including general economic conditions, the thinly-traded nature of our common stock and the outlook of analysts and investors on our industry. Further, significant market fluctuations, such as over the past six months, may adversely affect the trading price of our common stock. Over the past several years, we have relied on, in part, exercises of stock options by current and former officers and directors and stock purchase warrants by investors for operating cash. Wide fluctuations in the price of our common stock or a stock price that is not significantly above the exercise price of outstanding stock options or warrants, would likely reduce future exercises of stock options or warrants, and which would reduce or eliminate a historic source of cash for our operations.

Item 2. Properties

Our executive and administrative offices are located in Toledo, Ohio, under a month to month lease. We believe our relationship with our lessor is satisfactory. Our lease expired on February 28, 2007, and we have not renewed it at this time. We have no minimum rental commitment for the year ending December 31, 2009. The total rental expense for this location included in the statements of operations for each of the years ended December 31, 2008 and 2007 is approximately \$37,500. We also lease various equipment on a month-to-month basis.

On December 28, 2006, we purchased the remaining ownership interest in Florida N-Viro and operate its facility in Volusia County, Florida. We maintain an office in Daytona Beach under a lease with the County of Volusia, Florida renewed in April, 2004 for five years. The total minimum rental commitment for the years ending December 31, 2009 through 2013 is \$48,000 per year, and for 2014 is \$12,000. The total rental expense included in the statements of operations for each of the years ended December 31, 2008 and 2007 is \$48,000.

We also lease processing equipment at the Florida location which began in 2006 under a four year contract. The total minimum rental commitment for the years ended December 31, 2009 and 2010 is \$31,000 and \$3,000, respectively.

We also lease other processing equipment at the Florida location which began in February 2008 under a three year lease. The total minimum rental commitment for the following years ended December 31 are as follows: 2009 - \$46,200; 2010 - \$46,200; 2011 - 4,000. We also lease various equipment on a month-to-month basis at our Florida operation.

Management believes that all of our properties are adequately covered by insurance.

Item 3. Legal Proceedings.

The Company's facility in Toledo, Ohio, utilizes patented technologies to stabilize and disinfect municipal bio-solids pursuant to a permit to install from the Ohio EPA that requires emissions be vented to a scrubber. In July of 2008, an inspection of the facility by local regulatory officials revealed that the scrubber was not in operation. In February of 2009, the Company agreed to enter into an administrative consent degree with the Ohio Environmental Protection Agency ("Ohio EPA") that resolved, without any admission of fact, violation, or liability, Ohio EPA's claims that the Company operated the scrubber, an air contaminant source, in violation of its permit to install. Pursuant to the terms of the consent degree, the Company agreed to pay a civil penalty in the amount of \$20,000. Payment of the penalty will be made in installments of \$4,000 over a 15-month period.

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 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ending December 31, 2008.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our shares of Common Stock are quoted on the OTC Bulletin Board under the symbol "NVIC.OB". The prices quoted below reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. The closing price range per share of the Common Stock since January 1, 2007, was as follows:

Quarter	High	Low
First 2007	\$3.31	\$2.30
Second 2007	\$3.50	\$2.35
Third 2007	\$3.10	\$2.45
Fourth 2007	\$3.00	\$2.40
First 2008	\$4.25	\$2.60
Second 2008	\$3.99	\$2.80
Third 2008	\$3.75	\$2.40
Fourth 2008	\$3.50	\$2.50

Our stock price closed at \$2.20 per share on March 20, 2009.

Holder

As of March 20, 2009, the number of holders of record of our Common Stock was approximately 160.

Dividends

We have never paid dividends with respect to our Common Stock. Payment of dividends is within the discretion of our Board of Directors and would depend, among other factors, on our earnings, capital requirements and our operating and financial condition.

Securities Authorized for Issuance Under Equity Compensation Plans

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	746,025	\$2.28	793,375 ²
Equity compensation plans not approved by security holders	258,700 ¹	\$1.93	-0-
Total	1,004,725	\$2.19	793,375

1. Represents 120,000 warrants to purchase our Common Stock, issued to Strategic Asset Management, Inc., in 2005 as part of an agreement to provide consulting services, issued at \$1.84 per share. And, 138,700 warrants to purchase our Common Stock, issued to certain members of the Board of Directors in December 2006 in payment for services rendered, issued at \$2.00 per share.
2. The available number of shares to issue under our Amended and Restated 2004 Stock Option Plan was increased to 1,500,000 shares as approved by the stockholders on June 17, 2008.

Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the fiscal year ended December 31, 2008 that have not been previously disclosed by the company in a Quarterly Report on Form 10-Q.

Item 6. Selected Financial Data

As a smaller reporting company we are not required to provide this information under Item 301 of Regulation S-K.

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

Overview

The following is a discussion of our results of operations and financial position for the periods described below, and should be read in conjunction with our Financial Statements and Supplementary Data appearing elsewhere in this Form 10-K. The discussion includes various forward-looking statements about our markets, products, services and our results. These statements are based on certain assumptions that we consider reasonable. Our actual results may differ materially from these indicated forward-looking statements. Please see "Cautionary Statement with Respect to Forward-Looking Comments" and "Risk Factors" elsewhere in this annual report on Form 10-K.

The following table sets forth, as a percentage of total revenues for the periods presented, revenues related to each of (i) technology fees, (ii) facility management, (iii) products and services:

	For the Year Ended December 31,	
	2008	2007
Technology fees	0.7%	5.5%
Facility management	63.8%	55.6%
Products and services	35.5%	38.9%
Totals	100.0%	100.0%

Technology fee revenue is defined as: royalty revenue, which represent ongoing amounts received from licensees for continued use of the N-Viro Process and are typically based on volumes of sludge processed; license and territory fees, which represent non-recurring payments for the right to use the N-Viro Process in a specified geographic area or at a particular N-Viro facility; research & development revenue, which represent payments from federal and state agencies awarded to us to fund ongoing site-specific research utilizing the N-Viro technology.

Facility management revenues are recognized under contracts where we manage the N-Viro Process ourselves to treat sludge, pursuant to a fixed price contract.

Product and service revenue is defined as: alkaline admixture revenue, which represent ongoing payments from licensees arising from the sale and distribution of alkaline admixture by us and our Agents to N-Viro facilities; service fee revenue for the management of alkaline admixture, which represent fees charged by us to manage and sell the alkaline admixture on behalf of a third party customer; N-Viro Soil™ sales, which represent either revenue received from sales of N-Viro Soil™ sold by N-Viro facilities, or through sales of N-Viro Soil™ sold directly by us; commissions earned on sales of equipment to an N-Viro facility; rental of equipment to a licensee or agent; equipment sales, which represent the price charged for equipment held for subsequent sale.

Our policy is to record the revenues payable to us pursuant to agency and license agreements when we have fulfilled our obligations under the relevant contract, except when it pertains to a foreign license agreement. In the case of foreign licenses, revenue is recorded when cash is received and when we have fulfilled our obligations under the relevant foreign license agreement.

Results of Operations

The following tables set forth, for the periods presented, (i) certain items in the Combined Statement of Operations, (ii) the percentage change of each such item from period to period and (iii) each such item as a percentage of total revenues in each period presented.

<u>(Dollars in thousands)</u>	Year Ended December 31, 2008	<i>Period to Period Percentage Change</i>	Year Ended December 31, 2007
Combined Statement of Operations Data:			
Revenues	\$ 5,002	22.4%	\$ 4,085
Cost of revenues	<u>4,260</u>	26.1%	<u>3,380</u>
Gross profit	742	5.1%	705
Operating expenses	<u>1,930</u>	(10.5%)	<u>2,207</u>
	(1,188)	*	(1,502)
Other income (expense)	<u>31</u>	1,766.9%	<u>2</u>
Loss before income tax expense	(1,157)	*	(1,500)
Federal and state income tax expense	<u>-</u>	*	<u>-</u>
Net loss	<u>\$ (1,157)</u>	*	<u>\$ (1,500)</u>
Percentage of Revenues:			
Revenues	100.0%		100.0%
Cost of revenues	<u>85.2</u>		<u>82.7</u>
Gross profit	14.8		17.3
Operating expenses	<u>38.5</u>		<u>54.0</u>
	(23.7)		(36.8)
Other income (expense)	<u>0.6</u>		<u>0.1</u>
Loss before income tax expense	(23.1)		(36.7)
Federal and state income tax expense	<u>-</u>		<u>-</u>
Net loss	<u>(23.1%)</u>		<u>(36.7%)</u>

* Period to period percentage change comparisons have only been calculated for positive numbers.

Comparison of Year Ended December 31, 2008 with Year Ended December 31, 2007

Revenues increased \$917,000, or approximately 22%, to \$5,002,000 for the year ended December 31, 2008 from \$4,085,000 for the year ended December 31, 2007. The increase in revenue was due to a net increase in revenue from existing on-line facilities, primarily due to the following factors:

- a) Sales of alkaline admixture decreased \$373,000 from the same period ended in 2007;
- b) Revenue from the service fees for the management of alkaline admixture increased \$156,000 from the same period ended in 2007, primarily from additional sales generated on new municipal sources started in 2008 at the Florida N-Viro location;
- c) Our processing revenue, including facility management revenue, showed a net increase of \$1,153,000 over the same period ended in 2007, primarily from new municipal sludge processing sources started in 2008 at the Florida N-Viro location;
- d) Territorial fees showed a net decrease of \$16,000 from the same period ended in 2007;
- e) Miscellaneous revenues decreased \$3,000 from the same period ended in 2007.

The decrease in the sales of alkaline admixture was primarily from facilities no longer procuring their alkaline admixture through us. One licensee that represented approximately \$200,000, or 5% of our 2007 gross revenue stopped contracting with us in early 2007.

The net increase in service fees for the management of alkaline admixture was from the additional sources of municipal sludge treatment secured in 2008 and the resulting alkaline admixture marketed to supply these new sources. They represented a total increase of \$276,000 over 2007.

The increase in processing revenue of \$1,153,000 was primarily from an increase in processing volume of facility management revenue, representing over \$916,000 of the increase. This increase was also due to an increase in revenue from sales of the N-Viro Soil product, an increase of \$408,000 over 2007. Offsetting the facility management and product revenue increase was a decrease in royalties received as a result of a loss of tonnage at facilities no longer using the N-Viro process as their primary disposal technology. This was a decrease from 2007 to 2008 of approximately \$171,000.

Our gross profit increased \$37,000, or 5%, to \$742,000 for the year ended December 31, 2008 from \$705,000 for the year ended December 31, 2007, and the gross profit margin decreased to 15% from 17% for the same periods. The decrease in gross profit margin is primarily due to the additional percentage of gross revenue from facility management fee operations, discussed in the previous paragraph. The percentage of our gross revenue from management fee operations went from 56% in 2007 to 64% in 2008. Management fee operations have historically operated at lower profit margin than other types of N-Viro revenue. Also contributing to the gross profit margin decrease is the decrease in royalty revenue of \$171,000, which generally has marginal costs of revenue.

Our operating expenses decreased \$277,000, or 13%, to \$1,930,000 for the year ended December 31, 2008 from \$2,207,000 for the year ended December 31, 2007. The decrease was primarily due to a decrease of approximately \$335,000 in amortization of intangibles, \$145,000 for legal fees and \$30,000 in director-related costs. Offsetting this decrease in operating expenses was an increase in consulting fees of \$262,000.

Included in the decrease of amortization of intangibles was a write-down in 2007 of approximately \$331,000 of intangible assets deemed by management to be impaired that did not recur for 2008.

Included in the decrease of legal fees was the disposition in 2007 of two lawsuits with J. Patrick Nicholson that were both discharged in our favor. From 2006 to 2008, we decreased our legal fees by a total of approximately \$286,000 primarily as a result of the disposition of these claims.

Included in the increase of consulting fees was a write-off in 2008 of approximately \$222,000 that reflected the remaining stock value of three consulting contracts that were terminated in December 2008. More details of this are provided in our Form 8-K filed on February 10, 2009.

Of our total operating expenses in 2008 of \$1,930,000, approximately \$645,000 were non-cash expenses for stock options, warrants and stock issued during the year and \$447,000 in amortization and depreciation expense.

Our nonoperating income (expense) increased by \$29,000 to income of \$31,000 for the year ended December 31, 2008 from income of \$2,000 for the year ended December 31, 2007. The increase in nonoperating income was primarily due to an increase in the gain on settlements of debt negotiated by us in both 2008 and 2007.

We recorded a net loss of approximately \$1,157,000 for the year ended December 31, 2008 compared to a net loss of approximately \$1,500,000 for the year ended December 31, 2007, a decrease in the loss of approximately \$343,000.

Liquidity and Capital Resources

We had a working capital deficit of approximately \$1,287,000 at December 31, 2008, compared to a working capital deficit of \$1,006,000 at December 31, 2007, resulting in a decrease in working capital of \$282,000. Current assets at December 31, 2008 included cash and investments of approximately \$154,000 (including restricted cash of approximately \$139,000), which is a decrease of \$44,000 from December 31, 2007. The net negative change in working capital from December 31, 2007 was primarily from cash received of \$423,000 from stock warrant and option exercises, offset negatively by the cash loss from operations of approximately \$548,000 for the twelve months ended December 31, 2008.

In 2008 our cash flow used in operating activities was approximately \$206,000, a decrease of approximately \$62,000 from same period in 2007. This change from 2007 was principally due to the increase of \$420,000 in trade accounts receivable, a decrease of \$87,000 in trade accounts payable and an increase in bad debt allowance and other non-cash items of \$127,000, offset by: a \$17,000 decrease in prepaid and other assets, a decrease in the net loss of \$344,000 and an increase of \$211,000 in stock, warrants and stock options issued for fees and services.

We have modified our business model and have been evolving away from sales of alkaline admixture and royalty-based revenue agreements that typically generate a higher gross profit margin, to long-term and sustainable revenue based on integrated N-Viro technology and operations but typically generating a lower gross profit margin. From 2006 to 2008, the percentage of combined revenues from our owned and operated facilities in Toledo and Volusia County was: 2006 – 46%; 2007 – 77%; 2008 – 94%. We believe this shift will allow us to enhance future revenue and profits through growth, efficiency and revenue optimization.

During 2008, we had a line of credit up to \$400,000 at the prime rate (3.25% at December 31, 2008) plus 1.5% and secured by a first lien on all our assets, with Monroe Bank + Trust, or the Bank, with a maturity date of October 15, 2009. Two certificates of deposit totaling \$138,812 from the Bank are held as a condition of maintaining the line of credit. As announced in a Form 8-K filing on October 27, 2008, the line of credit was renewed through October 2009. At December 31, 2008, we had \$2,000 of borrowing capacity under the credit facility. We expect to extend or restructure our credit facility prior to maturity. While we expect to extend or restructure our credit facility prior to maturity, there can be no assurance we will be able to extend or refinance our credit facility upon commercially reasonable terms if at all.

During 2008, we borrowed a total of \$124,252 from three lenders to purchase insurance policies for various insurance coverages during the year. A total of three term notes were issued, ranging from 5.5% to 10% interest for a term not more than one year, monthly payments totaling \$13,930 and each are unsecured. The total amount owed on all notes as of December 31, 2008 was approximately \$50,000 and all notes are expected to be paid in full on the applicable maturity date, the last of which is August 2009.

During 2008, our wholly-owned subsidiary, Bio-Mineral Transportation LLC (“BMT”), borrowed a total of \$552,975 from three lenders to purchase automotive equipment that were placed into service during the year. A total of four term notes were issued, ranging from 7% to 8.8% interest for five years, monthly payments totaling \$11,085 and each are secured by the automotive equipment. The total amount owed on all notes by BMT as of December 31,

2008 was approximately \$857,000 and all notes are expected to be paid in full on the applicable maturity date, the last of which is October 2013.

Also during 2008, our wholly-owned subsidiary, Florida N-Viro LP (“Florida”), borrowed a total of \$185,000 from a lender to purchase processing equipment that was placed in service during the year. A term note was issued at 8.8% interest for three years, monthly payments of \$5,867 and secured by the equipment. The total amount owed on all notes by Florida as of December 31, 2008 was approximately \$216,000 and all notes are expected to be paid in full on the applicable maturity date, the last of which is May 2012.

On December 28, 2006, we purchased the remaining ownership interest in Florida N-Viro for \$500,000 and financed \$400,000 of it by delivering a note to the seller, VFL Technology Corporation. The note is at 8% interest for 10 years, to be paid in annual installments, including interest, of \$59,612, subject to an offset for royalties due us under a patent license agreement from the same party. The amount owed on the note as of December 31, 2008 was approximately \$372,000 and the first installment of \$27,338 was paid on time in early 2008. The second installment of approximately \$31,000 is expected to be paid on time in early 2009, subject to expected royalty offsets through 2008.

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. For 2008, our customers slowed the overall payment rate on our outstanding receivables, which in turn contributed to us extending payment times to our vendors on our payables. We make no assurances that payments from our customer or payments to our vendors will become shorter and this may have an adverse impact on our continuing operations.

For 2009, we expect to continue improvements in operating results by focusing on existing and expected new sources of revenue, especially from our N-Viro Fuel technology, and cash from equity issuances and exercises of outstanding warrants and options. We expect that market developments favoring cleaner burning renewable energy sources and ongoing discussions with companies in the fuel and wastewater industries could provide enhanced liquidity and have a positive impact on future operations. We continue to pursue opportunities with strategic partners for the development and commercialization of the patented N-Viro Fuel technology. In addition, we are focusing on the development of regional biosolids processing facilities, and are currently in negotiations with potential partners to permit and develop independent, regional facilities. There can be no assurance these discussions will be successful or result in new revenue sources for the company. Our failure to achieve improvements in operating results, including through these potential sources of revenue, or in our ability to adequately finance or secure additional sources of funds would have a material adverse effect on our continuing operations.

Off-Balance Sheet Arrangements

At December 31, 2008, 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.

Critical accounting policies, estimates and assumptions

In preparing financial statements in conformity with accounting principles generally accepted in the United States, 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 the significant estimates and assumptions made in preparation of the financial statements:

Non-domestic license and territory fees – We do not recognize revenue on any non-domestic license or territory fee contracts until the cash is received, assuming all other tests of revenue recognition are met. Canada is excluded from this definition of non-domestic.

Allowance for Doubtful Accounts – We estimate losses for uncollectible accounts based on the aging of the accounts receivable and the evaluation and the likelihood of success in collecting the receivable. The balance of the allowance at December 31, 2008 and 2007 is \$50,000 and \$40,000, respectively.

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 our 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. We believe the carrying amount is not impaired based upon estimated future cash flows.

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, we test for impairment when events and circumstances indicate that the assets might be impaired and the carrying value of those assets may not be recoverable. At December 31, 2007, we determined that certain territory agreements and patents had remaining lives shorter than currently recorded, and expensed additional amortization of \$290,000 in 2007.

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 – We assume the deductibility of certain costs in income tax filings and estimate the recovery of deferred income tax assets, all of which is fully reserved.

New Accounting Standards – The Financial Accounting Standards Board, or FASB, has issued the following new accounting and interpretations, which may be applicable in the future to us:

In May 2008, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 162, “The Hierarchy of Generally Accepted Accounting Principles”. This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles”. Adoption of this Statement is not expected to have a material impact on the Company’s financial statements.

In May 2008, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 163, “Accounting for Financial Guarantee Insurance Contracts — an interpretation of FASB Statement No. 60”. This Statement requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has

occurred in an insured financial obligation. This Statement also clarifies how Statement No. 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Those clarifications will increase comparability in financial reporting of financial guarantee insurance contracts by insurance enterprises. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Adoption of this Statement is not expected to have a material impact on the Company's financial statements.

Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company we are not required to provide this information under Item 305 of Regulation S-K.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of N-Viro International Corporation (a Delaware entity), as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the years in the two year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of N-Viro International Corporation as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes – an Interpretation of FASB No. 109 as of January 1, 2007.

/s/ UHY LLP
UHY LLP
Southfield, Michigan
March 31, 2009

N-VIRO INTERNATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents:		
Unrestricted	\$ 14,869	\$ 62,321
Restricted	138,812	135,506
Trade receivables, net	494,141	440,958
Prepaid expenses and other assets	64,331	185,330
Total current assets	<u>712,153</u>	<u>824,115</u>
 PROPERTY AND EQUIPMENT, NET	 1,781,290	 1,300,428
 INTANGIBLE AND OTHER ASSETS, NET	 <u>189,328</u>	 <u>318,523</u>
	 <u>\$ 2,682,771</u>	 <u>\$ 2,443,066</u>

The accompanying notes are an integral part of these financial statements.

N-VIRO INTERNATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 360,501	\$ 174,253
Line-of-credit	398,000	364,000
Accounts payable	1,047,364	1,055,268
Accrued liabilities	193,425	236,175
Total current liabilities	<u>1,999,290</u>	<u>1,829,696</u>
LONG-TERM DEBT, LESS CURRENT MATURITIES	<u>1,135,364</u>	<u>772,374</u>
Total liabilities	3,134,654	2,602,070
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
Common stock, \$.01 par value		
Authorized - 15,000,000 shares in 2008 and 7,000,000 in 2007		
Issued - 4,468,025 shares in 2008 and 4,145,359 shares in 2007	44,680	41,454
Preferred stock, \$.01 par value		
Authorized - 2,000,000 shares		
Issued - -0- shares in 2008 and 2007	-	-
Additional paid-in capital	17,822,744	16,962,134
Accumulated deficit	<u>(17,634,417)</u>	<u>(16,477,702)</u>
	233,007	525,886
Less treasury stock, at cost, 123,500 shares	<u>684,890</u>	<u>684,890</u>
Total stockholders' deficit	<u>(451,883)</u>	<u>(159,004)</u>
	<u>\$ 2,682,771</u>	<u>\$ 2,443,066</u>

The accompanying notes are an integral part of these financial statements.

N-VIRO INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2008 and 2007

	2008	2007
REVENUES	\$ 5,001,774	\$ 4,085,131
COST OF REVENUES	4,260,290	3,379,741
GROSS PROFIT	741,484	705,390
OPERATING EXPENSES		
Selling, general and administrative	1,929,777	2,207,545
OPERATING LOSS	(1,188,293)	(1,502,155)
OTHER INCOME (EXPENSE)		
Interest income	3,306	5,642
Gain on settlement of debt	88,785	61,635
Interest expense	(60,513)	(65,585)
	31,578	1,692
LOSS BEFORE INCOME TAXES	(1,156,715)	(1,500,463)
Federal and state income taxes	-	-
NET LOSS	\$ (1,156,715)	\$ (1,500,463)
Basic and diluted loss per share	\$ (0.27)	\$ (0.38)
Weighted average common shares outstanding - basic and diluted	4,274,877	3,958,475

The accompanying notes are an integral part of these financial statements.

N-VIRO INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

Years Ended December 31, 2008 and 2007

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
BALANCE – JANUARY 1, 2007	3,864,059	\$ 38,641	\$ 16,453,119	\$ (14,977,239)	\$ (684,890)	\$ 829,631
Net loss	-	-	-	(1,500,463)	-	(1,500,463)
Issuance of stock options	-	-	186,700	-	-	186,700
Exercise of stock options	146,300	1,463	251,182	-	-	252,645
Issuance of common stock	135,000	1,350	71,133	-	-	72,483
BALANCE – DECEMBER 31, 2007	4,145,359	41,454	16,962,134	(16,477,702)	(684,890)	(159,004)
Net loss	-	-	-	(1,156,715)	-	(1,156,715)
Issuance of stock options	-	-	221,150	-	-	221,150
Exercise of stock options	109,900	1,099	176,130	-	-	177,229
Exercise of stock warrants	120,947	1,209	244,559	-	-	245,768
Issuance of common stock	91,819	918	218,771	-	-	219,689
BALANCE – DECEMBER 31, 2008	4,468,025	\$ 44,680	\$ 17,822,744	\$ (17,634,417)	\$ (684,890)	\$ (451,883)

The accompanying notes are an integral part of these financial statements.

N-VIRO INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Net loss	\$ (1,156,715)	\$ (1,500,463)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	447,365	674,399
Provision (reduction) for bad debts	10,000	(130,000)
Issuance of stock for debt and services	470,628	124,828
Issuance of stock options and warrants for services	174,483	309,242
(Gain) Loss on the sale of fixed assets	(32,890)	5,542
Changes in Operating Assets and Liabilities		
Decrease (increase) in trade receivables	(63,182)	356,658
Increase in prepaid expenses and other assets	(5,112)	(20,387)
Increase (decrease) in accounts payable and accrued liabilities	(50,960)	36,159
Net cash used in operating activities	<u>(206,383)</u>	<u>(144,022)</u>
Cash Flows From Investing Activities		
Increases from restricted cash and cash equivalents	(3,306)	(4,008)
Purchases of property and equipment	(923,673)	(656,624)
Increase in investments	(125)	-
Proceeds from sale of property and equipment	79,773	7,181
Net cash used in investing activities	<u>(847,331)</u>	<u>(653,451)</u>
Cash Flows From Financing Activities		
Net borrowings on line-of-credit	34,000	159,000
Borrowings under long-term obligations	862,228	414,917
Principal payments on long-term obligations	(312,990)	(129,401)
Stock warrants exercised	245,912	-
Stock options exercised	177,112	252,645
Net cash provided by financing activities	<u>1,006,262</u>	<u>697,161</u>
Net Decrease in Cash and Cash Equivalents	(47,452)	(100,312)
Cash and Cash Equivalents - Beginning	<u>62,321</u>	<u>162,633</u>
Cash and Cash Equivalents - Ending	<u>\$ 14,869</u>	<u>\$ 62,321</u>
Supplemental disclosure of cash flows information:		
Cash paid during the year for interest	<u>\$ 125,857</u>	<u>\$ 101,648</u>

The accompanying notes are an integral part of these financial statements.

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 1. Operations and Summary of Significant Accounting Policies

The following is a summary of certain accounting policies followed in the preparation of these financial statements. The policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements:

A. Nature of Business – The Company owns and licenses the N-Viro Process, a patented technology to treat and recycle wastewater sludges and other bio-organic wastes, utilizing certain alkaline by-products produced by the cement, lime, electric utilities and other industries. Revenue and the related accounts receivable are due from companies acting as independent agents or licensees, principally municipalities

B. Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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.

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

D. 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 Statement of Financial Accounting Standards ("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.

E. Cash and Cash Equivalents – The Company has cash on deposit in one financial institution which, at times, may be in excess of FDIC insurance limits.

For purposes of the statements of cash flows, the Company considers all certificates of deposit with initial maturities of 90 days or less to be cash equivalents.

Restricted cash consists of two certificates of deposit and corresponding accrued interest which are held as collateral against the Company's line-of-credit.

F. Accounts receivable – The Company extends unsecured credit to customers under normal trade agreements, which require payment within 30 days. Accounts greater than 90 days past due amounted to \$50,940 and \$32,343 of net receivables for the years ended December 31, 2008 and 2007, respectively. The Company's policy is not to accrue and record interest income on past due trade receivables. The Company does bill the customer finance charges on past due accounts and records the interest income when collected. Credit is generally granted on an unsecured basis. Periodic credit evaluations of customers are conducted and appropriate allowances are established.

Management estimates an allowance for doubtful accounts, which was \$50,000 and \$40,000 as of December 31, 2008 and 2007, respectively. The estimate is based upon management's review of delinquent accounts and an assessment of the Company's historical evidence of collections.

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 1. Operations and Summary of Significant Accounting Policies (Continued)

G. Property and Equipment – Property, machinery and equipment are stated at cost less accumulated depreciation. Depreciation has been computed primarily by the straight-line method over the estimated useful lives of the assets. Generally, useful lives are five to fifteen years. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset. Depreciation expense amounted to \$395,928 and \$275,295 in 2008 and 2007, respectively. Management has reviewed property and equipment for impairment when events and circumstances indicate that the assets might be impaired and the carrying values of those assets may not be recoverable. Management believes the carrying amount is not impaired based upon estimated future cash flows.

H. Intangible Assets – Patent costs and territory rights are recorded at cost and then amortized by the straight-line method over their estimated useful lives (periods ranging from one and one-half to seventeen years; weighted-average amortization periods for patents/related intangibles and territory rights were 16.1 and 16.3 years at December 31, 2008 and 2007, respectively). Amortization expense amounted to \$51,437 and \$372,166 in 2008 and 2007, respectively. Estimated amortization expense, based on these patent costs and territory rights at December 31, 2008, for each of the ensuing five years is as follows: 2009 - \$29,000; 2010 - \$26,000; 2011 - \$23,000; 2012 - \$19,000; 2013 - \$15,000. Management has reviewed intangible assets for impairment when events and circumstances indicate that the assets might be impaired and the carrying values of those assets may not be recoverable. At December 31, 2007, management believed that certain territory agreements, trademark agreements and patents had remaining lives shorter than currently recorded. These represented intangible assets with a cost basis of \$588,593 and a carrying value of \$298,814, based upon estimated future lives. Subsequently, the Company wrote down those intangible assets to a zero carrying value and recorded a charge to amortization expense, which is included in operating expenses, for \$289,779 at December 31, 2007. In accordance with SFAS No. 142, the Company tests for impairment annually.

The Company was 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 was amortizing this over 4 years by the straight-line method. Amortization expense amounted to \$1,250 in 2007, the last year.

The Company has capitalized the cost of acquiring certain customer licenses and contracts as part of the acquisition of Florida N-Viro on December 31, 2006. Amortization expense amounted to \$14,422 in 2008 and \$26,940 in 2007. Estimated amortization expense, based on these capitalized license and contracts at December 31, 2008, for each of the ensuing five years is as follows: 2009 - \$7,000; 2010 - \$6,000; 2011 - \$2,000; 2012 - \$2,000; 2013 - \$2,000.

I. Revenue Recognition – Facility management revenue, sludge processing revenue and royalty fees are recognized under contracts where the Company or licensees utilize the N-Viro Process to treat sludge, either pursuant to a fixed-price contract or based on volumes of sludge processed. Revenue is recognized as services are performed.

Alkaline admixture sales, alkaline admixture management service revenue, equipment sales and N-Viro Soil™ revenue are recognized upon shipment.

License and territory fees are generated by selling the right to market or use the N-Viro Process in a specified territory. The Company's policy is to record revenue for the license agreements when all material services relating to the revenue have been substantially performed, conditions related to the contract have been met and no material contingencies exist. Research and development revenue is recognized as work is performed and billed to the contracting entity in accordance with the contract.

The Company records the amount of shipping and handling costs billed to customers as revenue. The cost incurred for shipping and handling has been included in the cost of sales.

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 1. Operations and Summary of Significant Accounting Policies (Continued)

J. Loss Per Common Share – Loss per common share has been computed on the basis of the weighted-average number of common shares outstanding during each period presented. For the years ended December 31, 2008 and 2007, the effects of the stock options granted are excluded from the diluted per share calculation because they would be antidilutive.

K. Stock Options – The Company follows the provisions of SFAS Statements No. 123R and No. 148 which prescribe a fair-value based method of measurement that results in compensation costs for essentially all awards of stock-based compensation to employees.

L. New Accounting Standards – In May 2008, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 162, “The Hierarchy of Generally Accepted Accounting Principles”. This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles”. Adoption of this Statement is not expected to have a material impact on the Company’s financial statements.

In May 2008, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 163, “Accounting for Financial Guarantee Insurance Contracts — an interpretation of FASB Statement No. 60”. This Statement requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how Statement No. 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Those clarifications will increase comparability in financial reporting of financial guarantee insurance contracts by insurance enterprises. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Adoption of this Statement is not expected to have a material impact on the Company’s financial statements.

M. Income taxes – Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the current period plus or minus the change during the period in deferred tax assets and liabilities.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109*” (“FIN 48”). This statement clarifies the criteria that an individual tax position must satisfy for some or all of the tax benefits of that position to be recognized in a company’s financial statements. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The Company adopted the provisions of FIN 48 on January 1, 2007. There was no material effect on the financial statements.

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 2. Balance Sheet Data

Property and equipment (at cost):

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 116,458	\$ 117,524
Equipment	2,779,103	1,957,568
Furniture, fixtures and computers	<u>48,216</u>	<u>52,280</u>
	2,943,777	2,127,372
Less accumulated depreciation	<u>1,162,487</u>	<u>826,944</u>
	<u>\$ 1,781,290</u>	<u>\$ 1,300,428</u>

Intangible and other assets:

In September 2005, the Company executed a Financial Public Relations Agreement, or the SAMI Agreement, with Strategic Asset Management, Inc., or SAMI. The Company appointed SAMI as its non-exclusive financial public relations counsel for a term of two years from the date of the SAMI Agreement. For its services, the Company issued SAMI 120,000 shares of the Company's unregistered common stock, and 120,000 common stock purchase warrants to purchase an equal number of shares of the Company's common stock at an exercise price of \$1.84 per share. Total valuation of the services to be performed as part of the SAMI Agreement was estimated to be \$321,800, to be amortized over the two year period. The Company recorded this amount as deferred costs, with the short-term portion in current assets and the long-term portion in intangibles and other assets as deferred costs.

In December 2006, the Company extended the SAMI Agreement for two years to September 2009, and in consideration issued SAMI an additional 100,000 shares of the Company's unregistered common stock. Total valuation of these additional services to be performed was estimated to be \$146,300, to be amortized from January 2007 to September 2009. Total consideration for the SAMI Agreement for the entire four year period was estimated to be \$468,100.

In December, 2008, the Company cancelled the SAMI Agreement and recorded to expense the balance of the unamortized costs on the remaining agreement, or a total of \$164,171 in 2008.

In December 2006, the Company executed an Investor Relations Agreement with Institutional Analyst, or the IA Agreement. The Company engaged IA to provide services as an investor relations consultant for the Company for a term of one year from the date of the Agreement. For its services, the Company paid IA \$10,000 cash and issued 100,000 common stock purchase warrants to purchase an equal number of shares of the Company's common stock at an exercise price of \$2.00 per share. Total valuation of the services to be performed as part of the IA Agreement was estimated to be \$113,700, and was fully amortized in 2007. The Company recorded this amount as deferred costs in 2006, with the short-term portion in current assets and the long-term portion in intangibles and other assets as deferred costs.

In April 2007, the Company executed a Consulting Agreement with Weil Consulting Corporation, or the Weil Agreement. The Company engaged Weil to provide services as a consultant in general business affairs of the Company for a term of two years from the date of the Weil Agreement. For its services, the Company issued Weil 35,000 shares of the Company's unregistered common stock. Total valuation of the services to be performed as part of the Weil Agreement was estimated to be \$61,000, to be amortized over the two year period. The Company recorded this amount as deferred costs, with the short-term portion in current assets and the long-term portion in intangibles and other assets as deferred costs.

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 2. Balance Sheet Data (Continued)

In December, 2008, the Company cancelled the Weil Agreement and recorded to expense the balance of the unamortized costs on the remaining agreement, or a total of \$39,809 in 2008.

In January 2008, the Company executed a second Consulting Agreement with Weil Consulting Corporation, or the Weil Agreement #2. The Company engaged Weil to provide services as a consultant in general business affairs of the Company for a term of two years from the date of the Weil Agreement #2. For its services, the Company issued Weil 50,000 shares of the Company's unregistered common stock. Total valuation of the services to be performed as part of the Weil Agreement #2 was estimated to be \$133,000, to be amortized over the two year period. The Company recorded this amount as deferred costs, with the short-term portion in current assets and the long-term portion in intangibles and other assets as deferred costs.

In December, 2008, the Company cancelled the Weil Agreement #2 and recorded to expense the balance of the unamortized costs on the remaining agreement, or a total of \$133,000 in 2008.

In January 2008, the Company executed a Consulting Agreement with SLD Capital Corporation, or the SLD Agreement. The Company engaged SLD to provide services as a consultant in general business affairs of the Company for a term of two years from the date of the SLD Agreement. For its services, the Company issued SLD 50,000 shares of the Company's unregistered common stock. Total valuation of the services to be performed as part of the SLD Agreement was estimated to be \$133,000, to be amortized over the two year period. The Company recorded this amount as deferred costs, with the short-term portion in current assets and the long-term portion in intangibles and other assets as deferred costs.

In December, 2008, the Company cancelled the SLD Agreement and recorded to expense the balance of the unamortized costs on the remaining agreement, or a total of \$133,000 in 2008.

The following is a summary of intangible and other assets, net as of December 31:

	2008	2007
Patents and related intangibles, less accumulated amortization (2008 - \$376,150; 2007 - \$500,557)	\$ 155,733	\$ 192,173
Territory rights, less accumulated amortization (2008 - \$5,294; 2007 - \$4,706)	4,706	5,294
Customer list, less accumulated amortization (2008 - \$41,362; 2007 - \$26,940)	21,393	35,815
Deferred costs, less accumulated amortization (2008 - \$794,762; 2007 - \$438,482)	-	77,549
Other	7,496	7,692
	\$ 189,328	\$ 318,523

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 2. Balance Sheet Data (Continued)

Accrued liabilities:

	2008	2007
Accrued payroll and employee benefits	\$ 14,386	\$ 29,097
Sales tax payable	177,455	177,360
Deferred revenue	-	28,000
Interest payable	1,584	1,718
	\$ 193,425	\$ 236,175

Note 3. Pledged Assets, Line-of-Credit and Long-Term Debt

During 2008, the Company had a line of credit up to \$400,000 at the prime rate (3.25% at December 31, 2008) plus 1.5% and secured by a first lien on all assets of the Company, with Monroe Bank + Trust, or the Bank, with a maturity date of October 15, 2009. Two certificates of deposit totaling \$138,812 from the Bank are held as a condition of maintaining the line of credit. At December 31, 2008, the Company had \$2,000 of borrowing capacity under the credit facility.

Long-term debt at December 31, 2008 and 2007 is as follows:

	2008	2007
Notes payable - banks	\$ 938,970	\$ 300,313
Notes payable - equipment vendors	183,481	246,588
Note payable - VFL	373,414	399,726
	1,495,865	946,627
Less current maturities	360,501	174,253
	\$ 1,135,364	\$ 772,374

During 2008, the Company borrowed a total of \$124,252 from three lenders to purchase insurance policies for general, property and directors & officers insurance coverage during the year. A total of three term notes were issued, ranging from 5.5% to 10% interest for a term not more than one year, monthly payments totaling \$13,930 and each are unsecured. The total amount owed on all notes as of December 31, 2008 was approximately \$50,000 and all notes are expected to be paid in full on the applicable maturity date, the last of which is August 2009.

During 2008, the Company's wholly-owned subsidiary, Bio-Mineral Transportation LLC ("BMT"), borrowed a total of \$552,975 from three lenders to purchase automotive equipment that were placed into service during the year. A total of four term notes were issued, ranging from 7% to 8.8% interest for five years, monthly payments totaling \$11,085 and each are secured by the automotive equipment. The total amount owed on all notes by BMT as of December 31, 2008 was approximately \$857,000 and all notes are expected to be paid in full on the applicable maturity date, the last of which is October 2013.

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 3. Pledged Assets, Line-of-Credit and Long-Term Debt (Continued)

Also during 2008, the Company's wholly-owned subsidiary, Florida N-Viro LP ("Florida"), borrowed a total of \$185,000 from a lender to purchase processing equipment that was placed in service during the year. A term note was issued at 8.8% interest for three years, monthly payments of \$5,867 and secured by the equipment. The total amount owed on all notes by Florida as of December 31, 2008 was approximately \$216,000 and all notes are expected to be paid in full on the applicable maturity date, the last of which is May 2012.

On December 28, 2006, the Company purchased the remaining ownership interest in Florida N-Viro for \$500,000 and financed \$400,000 of it by delivering a note to the seller, VFL Technology Corporation. The note is at 8% interest for 10 years, to be paid in annual installments, including interest, of \$59,612, subject to an offset for royalties due us under a patent license agreement from the same party. The amount owed on the note as of December 31, 2008 was approximately \$373,000 and the first installment of \$27,338 was paid on time in early 2008. The second installment of approximately \$31,000 is expected to be paid on time in early 2009, subject to expected royalty offsets through 2008.

Approximate aggregate maturities of long-term debt, including interest, for the years ending December 31 are as follows: 2009 - \$466,000; 2010 - \$409,000; 2011 - \$362,000; 2012 - \$226,000; 2013 and after - \$338,000.

Note 4. Related Party Transactions

During the year ended December 31, 2008, the Company paid R. Francis DiPrete, a member of the Board, fees for consulting services. These fees were exclusive of director fees and expenses paid for with cash and stock options.

During the year ended December 31, 2007, the Company contracted for trucking, repair parts and labor for repair services with Tri-State Garden Supply dba Gardenscape, a company that the Company's Chief Executive Officer, Timothy R. Kasmoch, was also the former President and CEO. The Company also paid Carl Richard, a member of the Board, fees for consulting services. These fees were exclusive of director fees and expenses paid for with cash and stock options. The Company also paid Nicholas Lynn, Mr. Kasmoch's son, consulting fees for the development and redesign of the Company's web site.

The following table summarizes these payments for 2008 and 2007 and the balance to each of any monies owed as of December 31, 2008 and 2007:

Payee	Year	Trucking, repairs and services	Consulting fees	Account payable balance at December 31
R. Francis DiPrete	2008	\$ -	\$ 2,500	\$ -
Gardenscape	2007	14,235	-	-
Carl Richard	2007	-	4,848	-
Nicholas Lynn	2007	-	2,500	-

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 5. Equity Transactions

In addition to its first stock option plan approved in 1993, the Company has a stock option plan approved in May 2004 and amended in June 2008 for directors and key employees under which 1,500,000 shares of common stock may be issued. Unless otherwise stated in the stock option agreement, options are 20% vested on the date of grant, with the balance vesting 20% per year over the next four years, except for directors whose options vest immediately, but can not be exercised until six months from the date of grant. Options were granted in 2008 and 2007 at the approximate market value of the stock at date of grant.

In May 2004, 50,000 stock options were granted to Michael G. Nicholson pursuant to his employment agreement dated June 2003. In the third quarter of 2004, the Company and Mr. Nicholson renegotiated primarily the stock option portion of the employment agreement, and changed the vesting of the 50,000 options as well as the pricing. This amended agreement states the first 30,000 options are fully vested at an option price of \$0.90, and the balance of 20,000 options vest on the third and fourth anniversary of the original agreement, June 6, 2005 and 2006, but priced at \$1.95. Because these options were priced lower than the fair market value as of the amended agreement date, the Company took a charge to earnings totaling approximately \$68,400 ratably from 2004 through June, 2007, the ending date of his employment agreement. This charge was \$8,842 for the year ended December 31, 2007.

In January 2007, the Company executed an Investor Relations Agreement, or the IA Agreement, with Institutional Analyst, or IA. For its services, the Company paid IA \$10,000 cash and issued 100,000 common stock purchase warrants to purchase an equal number of shares of the Company's common stock at an exercise price of \$2.00 per share. To reflect the value of the consulting services provided, the Company took a charge to earnings of \$113,700 ratably through December, 2007, the ending date of the IA Agreement. As of the conclusion of the IA Agreement, the warrants had not been exercised and expired.

In April 2007, the Company executed a Consulting Agreement, or the Weil Agreement, with Weil Consulting Corporation, or Weil. For its services, the Company issued Weil 35,000 shares of the Company's unregistered common stock. To reflect the value of the stock issued for the consulting services provided, the Company was taking a charge to earnings totaling approximately \$61,000 ratably through April, 2009, the ending date of the Weil Agreement. This charge was approximately \$21,000 for 2007. In December, 2008, the Company cancelled the Weil Agreement and took a charge to earnings for the balance of the unamortized costs on the remaining agreement, or a total of approximately \$40,000 in 2008.

On June 12, 2007, 100,000 stock options were granted to Robert W. Bohmer pursuant to his two-year employment agreement dated June 2007. The options vest 25% immediately and the balance over three 6-month periods. To reflect the value of the stock options granted for the employment services provided, the Company is taking a charge to earnings totaling approximately \$280,000 ratably through June, 2011, the ending date of his employment agreement, extended in June 2008 for two additional years. This charge was \$93,333 for 2008 and \$70,000 for 2007. In connection with the option grant to Mr. Bohmer, the Board of Directors adopted a waiver of certain provisions of the plan which would otherwise limit the number of options that any participant may receive. In particular, the plan provides that a participant may not receive options to purchase more than 25,000 shares of common stock during any calendar year. The Board adopted a limited amendment of these limitations in order to make the grants to Mr. Bohmer.

In January 2008, the Company executed a second Consulting Agreement with Weil Consulting Corporation, or the Weil Agreement #2. The Company engaged Weil to provide services as a consultant in general business affairs of the Company for a term of two years from the date of the Weil Agreement #2. For its services, the Company issued Weil 50,000 shares of the Company's unregistered common stock. Total valuation of the services to be performed as part of the Weil Agreement #2 was estimated to be \$133,000, to be amortized over the two year period. In December, 2008, the Company cancelled the Weil Agreement #2 and recorded to expense the balance of the unamortized costs on the remaining agreement, or a total of \$133,000 in 2008.

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 5. Equity Transactions (continued)

In January 2008, the Company executed a Consulting Agreement with SLD Capital Corporation, or the SLD Agreement. The Company engaged SLD to provide services as a consultant in general business affairs of the Company for a term of two years from the date of the SLD Agreement. For its services, the Company issued SLD 50,000 shares of the Company's unregistered common stock. Total valuation of the services to be performed as part of the SLD Agreement was estimated to be \$133,000, to be amortized over the two year period. The Company recorded this amount as deferred costs, with the short-term portion in current assets and the long-term portion in Intangibles and other assets as deferred costs. In December, 2008, the Company cancelled the SLD Agreement and recorded to expense the balance of the unamortized costs on the remaining agreement, or a total of \$133,000 in 2008.

There were 109,900 stock options exercised in 2008, 146,300 in 2007. A total of twelve grantees exercised at an average weighted price of \$2.14.

The following summarizes the number of grants and their respective exercise prices and grant date fair values per option for the years ended December 31, 2008 and 2007 and the number outstanding and exercisable at those dates:

	2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	839,925	\$ 2.19	1,031,875	\$ 2.10
Granted	22,500	3.61	142,500	2.79
Exercised	(109,900)	2.14	(146,300)	1.73
Expired during the year	(6,500)	2.31	(188,150)	2.47
Outstanding, end of year	746,025	2.28	839,925	2.19
Eligible for exercise at end of year	746,025	2.28	774,925	2.18
Weighted average fair value per option for options granted during the year		\$ 3.61		\$ 2.79

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 5. Equity Transactions (Continued)

A further summary of stock options follows:

	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
	2008				
Range of exercise prices:					
\$0.70 - \$1.45	37,925	5.19	\$ 1.15	37,925	\$ 1.15
\$1.50 - \$1.99	92,450	4.64	1.71	92,450	1.71
\$2.00 - \$2.40	350,000	7.42	2.02	350,000	2.02
\$2.45 - \$3.05	240,150	6.98	2.83	240,150	2.83
\$3.90 - \$5.19	<u>25,500</u>	6.01	4.36	<u>25,500</u>	4.36
	746,025			746,025	
	2007				
Range of exercise prices:					
\$0.70 - \$1.45	50,875	6.37	\$ 1.10	50,875	\$ 1.10
\$1.50 - \$1.99	120,650	5.76	1.75	120,650	1.75
\$2.00 - \$2.40	397,750	7.74	2.04	397,750	2.04
\$2.45 - \$3.05	260,150	7.73	2.83	195,150	2.85
\$3.90 - \$5.19	<u>10,500</u>	2.36	5.03	<u>10,500</u>	5.03
	839,925			774,925	

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 6. Revenue and Major Customers

Revenues for the years ended December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Facility management	\$ 3,188,539	\$ 2,272,699
Technology fees	36,241	223,199
Products and services	<u>1,776,994</u>	<u>1,589,233</u>
	<u>\$ 5,001,774</u>	<u>\$ 4,085,131</u>

Revenues for the years ended December 31, 2008 and 2007 include revenues from one major customer, the City of Toledo, Ohio (included in the facility management, and, products and services classifications), which represented approximately 39% for each year of total consolidated revenue. The accounts receivable balance due (which is unsecured) from this customer at December 31, 2008 and 2007 was approximately \$110,000 and \$128,000, respectively. The Company has six customers billed through Florida N-Viro, each representing between 5%-12% of the consolidated revenue for the Company – total accounts receivable balance for these six customers at December 31, 2008 and 2007 was approximately \$229,000 and \$143,000, respectively.

A substantial portion of the Company's revenue is derived from services provided under contracts and agreements with existing licensees. Some of these contracts, especially those contracts with large municipalities, provide for termination of the contract by the customer after giving relatively short notice (in some cases as little as ten days). In addition, some of these contracts contain liquidated damages clauses, which may or may not be enforceable in the event of early termination of the contracts. If one or more of these contracts are terminated prior to the expiration of its term, and the Company is not able to replace revenues from the terminated contract or receive liquidated damages pursuant to the terms of the contract, the lost revenue could have a material and adverse effect on its business and financial condition.

N-VIRO INTERNATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 7. Commitments and Contingencies

In June 2007, the Company executed an Employment Agreement with Robert W. Bohmer as Vice-President of Business Development and General Counsel, which commenced July 1, 2007. The Company and Mr. Bohmer agreed primarily to enter into an employment arrangement for a two-year term at \$150,000 per year plus a stock option grant of 100,000 shares. In addition, Mr. Bohmer is eligible for an annual cash bonus. Generally, the Agreement may be terminated by the Company with or without cause or by the Employee for any reason. In June 2008, the Company amended the Agreement and extended the employment term an additional two years, ending on July 1, 2011. Except for the extension of the term, there were no other changes to the Agreement. Details of this event were announced in a Form 8-K filed June 20, 2008.

In March 2007, the Company and Mr. Timothy R. Kasmoch, the President and Chief Executive Officer, entered into an Employment Agreement dated and commencing February 13, 2007, for a two-year term. Mr. Kasmoch is to receive an annual base salary of \$150,000, subject to an annual discretionary increase. In addition, Mr. Kasmoch is eligible for an annual cash bonus. Generally, the Agreement may be terminated by the Company with or without cause or by the Employee for any reason. In April 2008, the Company amended the Agreement and extended the employment term an additional two years, ending on February 12, 2011. Except for the extension of the term, there were no other changes to the Agreement. Details of this event were announced in a Form 8-K filed April 7, 2008.

The Company maintains an office in Daytona Beach under a lease with the County of Volusia, Florida which was renewed in March, 2009 for five years. The total minimum rental commitment for the years ending December 31, 2009 through 2013 is \$48,000 each year, and for 2014 is \$12,000. The total rental expense included in the statements of operations for the year ended December 31, 2008 and 2007 is \$48,000.

The Company leases processing equipment at its Florida location which began in 2006 under a four year contract. The total minimum rental commitment for the years ended December 31, 2009 and 2010 is \$31,000 and \$3,000, respectively.

The Company also leases other processing equipment at its Florida location which began in February 2008 under a three year lease. The total minimum rental commitment for the following years ended December 31 are as follows: 2009 - \$46,200; 2010 - \$46,200; 2011 - 4,000.

The Company's facility in Toledo, Ohio, utilizes patented technologies to stabilize and disinfect municipal bio-solids pursuant to a permit to install from the Ohio EPA that requires emissions be vented to a scrubber. In July of 2008, an inspection of the facility by local regulatory officials revealed that the scrubber was not in operation. In February of 2009, the Company agreed to enter into an administrative consent decree with the Ohio Environmental Protection Agency ("Ohio EPA") that resolved, without any admission of fact, violation, or liability, Ohio EPA's claims that the Company operated the scrubber, an air contaminant source, in violation of its permit to install. Pursuant to the terms of the consent decree, the Company agreed to pay a civil penalty in the amount of \$20,000. Payment of the penalty will be made in installments of \$4,000 over a 15-month period.

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.

From time to time the Company is involved in legal proceedings and subject to claims which may arise in the ordinary course of business. The Company is not aware of any legal proceedings or material claims at this time.

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 8. Income Tax Matters

The composition of the deferred tax assets and liabilities at December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Gross deferred tax liabilities:		
Property + equipment depreciation + amortization	\$ (94,900)	\$ (49,100)
Gross deferred tax assets:		
Loss carryforwards	6,687,800	6,249,000
Section 754 basis step up	201,600	226,800
Allowance for doubtful accounts	20,000	16,000
Other	3,300	8,200
Less valuation allowance	<u>(6,817,800)</u>	<u>(6,450,900)</u>
	<u>\$ -</u>	<u>\$ -</u>

The income tax provisions differ from the amount of income tax determined by applying the U.S. Federal income tax rate to pre-tax income from continuing operations for the years ended December 31, 2008 and 2007 and are as follows:

	<u>2008</u>	<u>2007</u>
Computed "expected" tax (credits)	\$ (462,700)	\$ (600,200)
State taxes, net of federal tax benefit	(40,700)	(52,800)
(Decrease) increase in income taxes resulting from:		
Change in valuation allowance	366,900	732,200
Stock options and warrants	68,800	(17,700)
Other	<u>67,700</u>	<u>(61,500)</u>
	<u>\$ -</u>	<u>\$ -</u>

The net operating losses available at December 31, 2008 to offset future taxable income total approximately \$16,800,000 and expire principally in years 2009 - 2028. Approximately \$6,124,000 will expire if not used to offset taxable income for the 2009 tax year.

N-VIRO INTERNATIONAL CORPORATION
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FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 9. Segment Information

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 Ohio Wastewater Treatment Facility and the Daytona/Volusia County Florida 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 those described in Note 1 which contains 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 specific locations 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.

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 9. Segment Information (Continued)

The Research and Development segment 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 Company has not recorded any revenue from this source since 2006.

The table below presents information about the segment profits and segment identifiable assets used by the chief operating decision makers of the Company as of and for the years ended December 31, 2008 and 2007 (dollars in thousands).

	Management Operations	Other Domestic Operations	Foreign Operations	Research & Development	Total
	2008				
Revenues	\$ 4,630	\$ 372	\$ -	\$ -	\$ 5,002
Cost of revenues	3,987	273	-	-	4,260
Segment profits	643	99	-	-	742
Identifiable assets	1,769	-	-	-	1,769
Depreciation and Amortization	285	124	-	-	409
	2007				
Revenues	\$ 3,110	\$ 959	\$ 16	\$ -	\$ 4,085
Cost of revenues	2,638	742	-	-	3,380
Segment profits	472	217	16	-	705
Identifiable assets	1,196	87	-	-	1,283
Depreciation and Amortization	182	119	-	-	301

N-VIRO INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Note 9. Segment Information (Continued)

A reconciliation of total segment profits, identifiable assets and depreciation and amortization to the consolidated financial statements as of and for the years ended December 31, 2008 and 2007 follows (dollars in thousands):

	<u>2008</u>	<u>2007</u>
Segment profits:		
Segment profits for reportable segments	\$ 742	\$ 705
Corporate selling, general and administrative expenses and research and development costs	(1,930)	(2,146)
Other income (expense)	31	(59)
Consolidated earnings before taxes	<u>\$ (1,157)</u>	<u>\$ (1,500)</u>
Identifiable assets:		
Identifiable assets for reportable segments	\$ 1,769	\$ 1,283
Corporate property and equipment	12	17
Current assets not allocated to segments	712	824
Intangible and other assets not allocated to segments	190	319
Consolidated assets	<u>\$ 2,683</u>	<u>\$ 2,443</u>
Depreciation and amortization:		
Depreciation and amortization for reportable segments	\$ 409	\$ 301
Corporate depreciation and amortization	38	373
Consolidated depreciation and amortization	<u>\$ 447</u>	<u>\$ 674</u>

Note 10. 401(k) Plan

The Company has a 401(k) plan covering substantially all employees which provides for contributions in such amounts as the Board of Directors may determine annually. Participating employees may also contribute a portion of their annual compensation. There were no employer contributions for the years ended December 31, 2008 and 2007.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A(T). Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision and with the participation of our management, including our Chief Financial Officer and Chief Executive Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as set forth in Internal Control - Integrated Framework. Based on our evaluation, our management concluded that our internal controls over financial reporting were not effective as of December 31, 2008 for the reasons described below.

As stated in our Form 10-KSB for the year ended December 31, 2007, we reported that, based on the assessment of our principal executive officer and principal financial officer, our internal controls over financial reporting were not effective as of December 31, 2007, we identified the following material weakness:

We lacked personnel in accounting and financial staff to sufficiently monitor and process financial transactions in an efficient and timely manner. Our history of losses has severely limited our budget to hire and train enough accounting and financial personnel needed to adequately provide this function. Consequently, we lacked sufficient technical expertise, reporting standards and written policies and procedures. This has resulted in a significant number of immaterial out-of-period adjustments to our consolidated financial statements. Specifically, controls were not effective to ensure that significant non-routine transactions, accounting estimates, and other adjustments were appropriately reviewed, analyzed and monitored by competent accounting staff on a timely basis.

We continue to develop and implement a remediation plan to address the material weakness. To date, our remediation efforts have included adoption of an expense reimbursement policy and the hiring of an employee to assist in the financial area of our business. However, due to our continuing lack of financial resources to hire and train accounting and financial personnel, we have not yet fully remedied this material weakness.

During the quarter ended December 31, 2008, there were no material changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

While we are not aware of any material errors to date, our inability to maintain the adequate internal controls may result in a material error in our financial statements. Further, because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated by reference to the information under the heading "Election of Directors" and "Management – Directors and Executive Officers" in the definitive proxy statement of the Company for the 2009 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to the information under the heading "Executive Compensation" in the definitive proxy statement of the Company for the 2009 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference to the information under the heading "Security Ownership of Certain Beneficial Owners and Management" in the definitive proxy statement of the Company for the 2009 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference to the information under the heading "Certain Relationships and Related Transactions" in the definitive proxy statement of the Company for the 2009 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference to the information under the heading “Independent Auditors” in the definitive proxy statement of the Company for the 2009 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules

<u>Exhibit No.</u>	<u>Description</u>
3.1	Second Amended and Restated Certificate of Incorporation of the Company, dated August 14, 2008 (incorporated by reference to Exhibit 10.1 to Form 10-Q filed August 14, 2008)
3.2	Second Amended and Restated By-Laws of the Company, effective June 17, 2008 (incorporated by reference to Exhibit 10.2 to Form 10-Q filed August 14, 2008).
10.1	Commercial Line of Credit Agreement and Note dated October 15, 2008, between N-Viro International Corporation and Monroe Bank + Trust (incorporated by reference to Exhibit 99.1 to Form 8-K filed October 27, 2008).
10.2	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).*
10.3	Employment Agreement, dated February 13, 2007 between Timothy R. Kasmoch and N-Viro International Corporation (incorporated by reference to Exhibit 10.1 to Form 8-K filed March 12, 2007).*
10.4	First Amendment to Employment Agreement, dated April 2, 2008 between Timothy R. Kasmoch and N-Viro International Corporation (incorporated by reference to Exhibit 10.1 to Form 8-K filed April 7, 2008).
10.5	Employment Agreement, dated June 12, 2007 between Robert W. Bohmer and N-Viro International Corporation (incorporated by reference to Exhibit 10.1 to Form 8-K filed June 20, 2007).*
10.6	First Amendment to Employment Agreement, dated June 19, 2008 between Robert W. Bohmer and N-Viro International Corporation (incorporated by reference to Exhibit 10.1 to Form 8-K filed June 20, 2008).
10.7	The Amended and Restated N-Viro International Corporation Stock Option Plan (incorporated by reference to Form S-8 filed May 9, 2000).*

- 10.8 The N-Viro International Corporation 2004 Stock Option Plan (incorporated by reference to Form S-8 filed December 20, 2004).*
- 10.9 The N-Viro International Corporation Amended and Restated 2004 Stock Option Plan (incorporated by reference to the Proxy Statement on Schedule 14A filed May 14, 2008).*
- 14.1 Code of Ethics.
- 21.1 List of subsidiaries of the Company.#
- 23.1 Consent of UHY LLP.
- 24.1 Power(s) of Attorney.#
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Only included in Form 10-K filed electronically with the Securities and Exchange Commission.

* Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

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

N-VIRO INTERNATIONAL CORPORATION

Dated: March 31, 2009

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

POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints James K. McHugh his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Dated: March 31, 2009

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

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

/s/ James H. Hartung*
James H. Hartung, Director and Chairman of the Board

/s/ R. Francis DiPrete *
R. Francis DiPrete, Director

/s/ Joseph H. Scheib, Director *
Joseph H. Scheib, Director

/s/ Mark D. Hagans*
Mark D. Hagans, Director

/s/ Carl Richard*
Carl Richard, Director

/s/ Thomas L. Kovacik*
Thomas L. Kovacik, Director

N-Viro International Corporation

Code of Ethics

The Board of Directors has determined that the Chief Executive Officer and Chief Financial Officer of the Company hold important and elevated roles in corporate governance. While members of the management team, they are uniquely capable and empowered to ensure that all stakeholders' interests are appropriately balanced, protected and preserved. This Code provides principles to which these individuals are expected to adhere and advocate. They embody rules regarding individual and peer responsibilities to the Company, the Company's clients and shareholders. Violations of the Code of Ethics may subject the officer to censure, suspension or termination.

Each of the Chief Executive Officer and Chief Financial Officer shall, at all times:

1. Act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships. All material transactions and relationships involving a potential conflict of interest between the Company and the Chief Executive Officer or Chief Financial Officer must be approved in advance by the Board of Directors of the Company.
2. Provide full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and in other public communications made by the Company.
3. Comply with applicable rules and regulations of federal, state, provincial and local governments, and other appropriate private and public regulatory agencies.
4. Act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing his independent judgment to be subordinated.
5. Respect the confidentiality of information acquired in the course of his work except when authorized or otherwise legally obligated to disclose. Confidential information acquired in the course of his work shall not be used for personal advantage.
6. Share knowledge and maintain skills important and relevant to the Company's needs.
7. Proactively promote ethical behavior as a responsible partner among peers in his work environment.
8. Achieve responsible use of and control over all Company assets and resources employed or entrusted to him.
9. Report promptly known or suspected violations of this Code to the Chairman of the Audit Committee.

Each waiver of a provision of this Code of Ethics, and each material transaction and relationship involving a conflict of interest between the Company and the Chief Executive Officer or Chief Financial Officer which is approved by the Board of Directors, must be disclosed in the periodic reports filed by the Company with the Securities and Exchange Commission, pursuant to the rules of the Commission.

List of Subsidiaries of the Company

Bio Mineral Transportation, LLC (Ohio)
National N-Viro Tech., Inc. (Ohio)
Florida N-Viro, LP (Delaware)
Florida N-Viro Management, LLC (Delaware)
Midwest N-Viro, Inc. (Illinois)
Tennessee-Carolina N-Viro, Inc. (Tennessee)
N-Viro Soil South, Inc. (Florida)
N-Viro Honolulu, Inc. (Hawaii)
Pan-American N-Viro, Inc. (Delaware)
BioCheck Laboratories, Inc. (Ohio)
American N-Viro Resources, Inc. (Ohio)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-121439 and 333-36608) of our report, dated March 31, 2009, relating to the consolidated financial statements of N-Viro International Corporation included in this Annual Report on Form 10-K for the year ended December 31, 2008.

/s/ UHY LLP
UHY LLP
Southfield, Michigan
March 31, 2009

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a Director of N-Viro International Corporation (the "Company"), a Delaware corporation that is filing an Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2008 with the Securities and Exchange Commission under the provisions of the Securities and Exchange Act of 1934, as amended, hereby constitutes and appoints James K. McHugh his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity as Director, to sign such Form 10-K and any and all amendments thereto, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, hereby granting unto said attorney-in-fact and agent full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this /s/ 31st day of March, 2009.

/s/ Carl Richard
Signature

Carl Richard
printed name

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a Director of N-Viro International Corporation (the "Company"), a Delaware corporation that is filing an Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2008 with the Securities and Exchange Commission under the provisions of the Securities and Exchange Act of 1934, as amended, hereby constitutes and appoints James K. McHugh his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity as Director, to sign such Form 10-K and any and all amendments thereto, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, hereby granting unto said attorney-in-fact and agent full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this /s/ 31st day of March, 2009.

/s/ Joseph Scheib
Signature

Joseph Scheib
printed name

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a Director of N-Viro International Corporation (the "Company"), a Delaware corporation that is filing an Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2008 with the Securities and Exchange Commission under the provisions of the Securities and Exchange Act of 1934, as amended, hereby constitutes and appoints James K. McHugh his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity as Director, to sign such Form 10-K and any and all amendments thereto, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, hereby granting unto said attorney-in-fact and agent full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this /s/ 31st day of March, 2009.

/s/ James H. Hartung
Signature

James H. Hartung
printed name

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a Director of N-Viro International Corporation (the "Company"), a Delaware corporation that is filing an Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2008 with the Securities and Exchange Commission under the provisions of the Securities and Exchange Act of 1934, as amended, hereby constitutes and appoints James K. McHugh his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity as Director, to sign such Form 10-K and any and all amendments thereto, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, hereby granting unto said attorney-in-fact and agent full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this /s/ 31st day of March, 2009.

/s/ Mark Hagans
Signature

Mark Hagans
printed name

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a Director of N-Viro International Corporation (the "Company"), a Delaware corporation that is filing an Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2008 with the Securities and Exchange Commission under the provisions of the Securities and Exchange Act of 1934, as amended, hereby constitutes and appoints James K. McHugh his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity as Director, to sign such Form 10-K and any and all amendments thereto, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, hereby granting unto said attorney-in-fact and agent full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this /s/ 31st day of March, 2009.

/s/ R. Francis DiPrete
Signature

R. Francis DiPrete
printed name

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that the undersigned, a Director of N-Viro International Corporation (the "Company"), a Delaware corporation that is filing an Annual Report on Form 10-K ("Form 10-K") for the year ended December 31, 2008 with the Securities and Exchange Commission under the provisions of the Securities and Exchange Act of 1934, as amended, hereby constitutes and appoints James K. McHugh his true and lawful attorney-in-fact and agent, for him and in his name, place and stead, in the capacity as Director, to sign such Form 10-K and any and all amendments thereto, and to file such Form 10-K and each such amendment so signed, with all exhibits thereto, and any and all other documents in connection therewith, hereby granting unto said attorney-in-fact and agent full power and authority to do and perform any and all acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might do in person, hereby ratifying and confirming all that said attorney-in-fact and agent may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned hereunto sets his hand this /s/ 31st day of March, 2009.

/s/ Thomas L. Kovacik
Signature

Thomas L. Kovacik
printed name

CERTIFICATION

I, Timothy R. Kasmoch, certify that:

1. I have reviewed this annual report on Form 10-K of N-Viro International Corporation;
2. Based on my knowledge, this annual 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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.

Dated: March 31, 2009

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

CERTIFICATION

I, James K. McHugh, certify that:

1. I have reviewed this annual report on Form 10-K of N-Viro International Corporation;
2. Based on my knowledge, this annual 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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.

Dated: March 31, 2009

/s/ James K. McHugh
James K. McHugh
Chief Financial Officer

Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Timothy R. Kasmoch, as the Chief Executive Officer of N-Viro International Corporation, certify that (i) the Form 10-K 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-K 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, President and Chief Executive Officer
March 31, 2009

Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, James K. McHugh, as the Chief Financial Officer of N-Viro International Corporation, certify that (i) the Form 10-K 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-K 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
March 31, 2009