BION ENVIRONMENTAL TECHNOLOGIES INC
Form 10SB12G/A
May 11, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 4 TO
FORM 10-SB

GENERAL FORM FOR REGISTRATION OF SECURITIES
OF SMALL BUSINESS ISSUERS
Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

BION ENVIRONMENTAL TECHNOLOGIES, INC.
(Name of small business issuer as specified in its charter)

Colorado	84-1176672
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

641 Lexington Avenue, 17th Floor New York, New York	10022
(Address of Principal Executive Offices)	(Zip Code)

Issuer's Telephone Number, including area code:
212-758-6622

Securities to be registered under Section 12(b) of the Act:

None

Securities to be registered under Section 12(g) of the Act:

Common Stock, no par value

Forward-Looking Statements

This Report contains, in addition to historical information, forward-looking statements regarding BION ENVIRONMENTAL TECHNOLOGIES, INC. (the "Company"), which represent the Company's expectations or beliefs including, but not limited to, statements concerning the Company's operations, performance, financial condition, business strategies, and other information and that involve substantial risks and uncertainties. The Company's actual results of operations, most of which are beyond the Company's control, could differ materially. For this purpose, any statements contained in this Report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements.

Factors that could cause or contribute to such difference include, but are not limited to, limited operating history; uncertain nature of environmental regulation and operations; risks of development of first of their kind Integrated Projects; need for additional financing; competition; dependence on management; and other factors discussed herein.

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ITEM 1. DESCRIPTION OF BUSINESS

General

Bion Environmental Technologies, Inc.'s ("Bion," "Company," "We," "Us," or "Our") patented and proprietary technology provides a comprehensive environmental solution to a significant source of pollution in US agriculture, Confined Animal Feeding Operations ("CAFO's"). Bion's technology is "comprehensive" in that it surpasses current environmental regulations for both nutrient releases to water and air emissions from livestock waste streams based upon our research to date. Because Bion's technology reduces the harmful emissions from a CAFO on which it is utilized, the CAFO can increase its herd concentration while lowering or maintaining its level of nutrient releases and atmospheric emissions. Additionally, we believe that Bion's technology platform allows the integration of ethanol production, renewable energy production and on-site energy utilization with large-scale CAFO's (and their end-product users) in an environmentally and economically sustainable manner while reducing the aggregate capital expense and operating costs for the entire integrated complex. In the context of Integrated Projects, Bion's waste treatment process, in addition to mitigating polluting releases, generates renewable energy from portions of the CAFO waste stream that can be used by ethanol plants or other users as a

natural gas replacement. The ethanol plant's main by product, called distillers grain, can be added to the feed of the animals in wet form thereby lowering the capital expenditures and operating cost of the ethanol production process. The ethanol plant thereby acts as a feed mill for the CAFO, thus reducing the CAFO's feeding costs and generating revenue to the ethanol plant, and also provides a market for the renewable energy that Bion's System produces from the CAFO waste stream. Bion, as developer of its Integrated Projects, anticipates that it will share in the cost savings and revenue generated from these activities.

Since 2002, the Company has focused on completing development of its technology platform and business model. As such, we have not pursued near term revenue opportunities such as retrofitting existing CAFO's with our waste management solutions, because such efforts would have diverted scarce management and financial resources and negatively impacted our ability to complete development of an integrated technology platform in support of large-scale sustainable Integrated Projects. The Company now intends to focus its efforts on development and operation of Integrated Projects based on Bion's waste handling/renewable energy technology platform ("Bion Systems" or "Systems") integrating large-scale CAFO's and ethanol production ("Projects" or "Integrated Projects").

The financial statements for the years ended June 30, 2006 and 2005 and for the periods ended December 31, 2006 and 2005 included in this registration statement have been prepared assuming the Company will continue as a going concern. The Company has not recorded any revenue for either the year ended June 30, 2006 or for the period ended December 31, 2006. The Company has incurred net losses of approximately $5,173,000 and $2,115,000 during the years ended June 30, 2006 and 2005, respectively, and has incurred a net loss of approximately $1,800,000 (unaudited) for the six months ended December 31, 2006. The Company had a working capital deficiency and a stockholders' deficit of approximately $1,000 and $3,278,000, respectively, as of June 30, 2006, and $1,141,000 and $4,605,000, respectively, as of December 31, 2006.

The report of the independent registered public accounting firm on the Company's financial statements as of and for the year ended June 30, 2006 includes a "going concern" explanatory paragraph which means that the accounting firm has expressed substantial doubt about the Company's ability to continue as a going concern.

Principal Products and Services

Currently, Bion is focused on using applications of its patented waste management technology to develop Integrated Projects which will include large CAFOs, such as large dairies, beef cattle feed lots and hog farms, with Bion waste treatment System modules processing the aggregate CAFO waste stream from the equivalent of 20,000 to 40,000 or more dairy cows (or the waste stream equivalent of other species) while producing solids to be utilized for renewable energy production and to be marketed as feed and/or fertilizer, integrated with an ethanol plant capable of producing 20 million to 40 (or more) million gallons of ethanol per year. Such Integrated Projects will involve multiple CAFO modules of 10,000 or more dairy cows (or waste stream equivalent of other species) on a single site and/or within an approximately 30 mile radius. Bion believes its technology platform will allow integration of large-scale CAFO's with ethanol production, renewable energy production from waste streams and on-site energy utilization in a manner that reduces the capital expenditures and operating costs for the entire Integrated

Project and each component facility.

Bion is currently working with local, state and federal officials and with potential industry participants to evaluate sites in multiple states and anticipates selecting a site for its initial Project during 2007. In addition, Bion intends to choose sites for additional Projects from 2007 through 2008 to create a pipeline of Projects. Management has a 5-year development target (through calendar year 2012) of approximately 12-25 Integrated Projects. At the end of the 5-year period, Bion projects that 8-16 of these Integrated Projects will be in full operation in 3-8 states, and the balance would be in various stages ranging from partial operation to early construction stage. No Integrated Project has been developed to date.

Bion is presently establishing its implementation management team with the intention of commencing development and construction of an initial Project during 2007. In September 2006, Jeremy Rowland joined Bion Dairy as its Chief Operating Officer and has served in the capacity since that time. Mr. Rowland has further agreed to serve as the Company's Chief Operating Officer once it has secured adequate director and officer liability insurance coverage. Mr. Rowland has eighteen years experience in multi-disciplinary energy and environmental project development and management throughout the U.S. and overseas. Mr. Rowland's areas of expertise include renewable energy project development, distributed generation (mostly combined heat/power), large-scale power plant developments, and strategic energy management. In addition, Sal Zizza, who rejoined Bion and Bion Dairy during 2005 on a consulting basis, assumed the positions of Chairman and Director of Bion Dairy on January 1, 2006 and Jeff Kapell, who became a consultant to Bion and Bion Dairy in December 2003, joined the Bion management team on a full-time

basis during April 2006 as Bion Dairy's Vice-President --Renewables. Mr. Zizza and Mr. Kapell have performed these services for Bion Dairy since January 2006 and April 2006, respectively. Mr. Zizza and Mr.Kapell have further agreed to serve the Company in similar positions once it has secured adequate director and officer liability insurance coverage. Bion will need to continue to hire additional management and technical personnel as it moves from the technology re-development phase to the implementation phase during the 2007 calendar year.

The Company's successful accomplishment of these activities is dependent upon many factors including the following, neither of which can be assured at this date:

* Successful development and completion of the first Project to demonstrate the operation of a fully integrated, environmentally compliant, Bion-based CAFO/ethanol Project at a profitable level; and

* Our ability to raise sufficient funds to allow us to finance our activities.

Industry Background

The traditional business model for CAFO's, regardless of livestock type, has relied on a combination of: 1) a passive environmental regulatory regime, and 2) access to a relatively unlimited supply of cheap land and water to serve as the basis for "environmental" treatment of animal waste. Such land and water resources have now become significantly more expensive while ongoing consolidation of the CAFO industry has produced a substantially increased and more concentrated waste streams. At the same time, regulatory

scrutiny of, and public concern about, the environmental impact from CAFO's has intensified greatly.

Agricultural runoff is the largest water pollution problem in the United States. Over-application of animal waste to cropland has resulted in manure nutrients polluting surface and ground water systems, adversely impacting water quality throughout the country. Clean-up initiatives for the Chesapeake Bay and the Great Lakes (and elsewhere) are requiring the expenditure of substantial sums of money to reduce excess nutrient pollution. In each such case, agriculture in general and CAFO's in particular have been identified among the main contributors of pollution. CAFO's are also significant emitters of pollutants to air, with dairies having been identified as the largest contributor to airborne ammonia and other polluting gases in the San Joaquin Valley.

We believe Bion's technology will enable increased CAFO herd concentration that is economically and environmentally sustainable because the technology removes nutrients from the waste streams generated by animal operations while dramatically reducing atmospheric emissions. The resulting herd concentration potentially creates reduced marginal costs and results in a core Bion technology platform that integrates environmental treatment and renewable energy production and utilization with ethanol production.

Bion's technology platform and the resulting herd concentration, in turn, potentially provide the opportunity to integrate a number of revenue generating operations while maximizing the realized value of the renewable energy production. The Bion model will access diversified revenue streams through a balanced integration of technologies to provide a hedge of the commodity risks associated with any of the separate enterprises. We believe that the Bion's Integrated Projects will generate revenues and profits from:

* Waste processing and technology licensing fees;
* High-value organic fertilizer and/or high protein feed products;
* Fees related to permanently integrated utilization of the wet distiller grains, which are a by-product of ethanol production;
* Renewable energy production from the waste streams combined with utilization of the energy produced within the Integrated Projects; and
* Ethanol production.

Exactly what fees and revenues accrue to Bion will depend on the nature of Bion's participation in each Integrated Project and on negotiations with other participants in such Projects. If Bion is simply the operator of its waste System within an Integrated Project that it develops, it would generate revenue from: a) waste processing and technology licensing fees charged to the CAFO, b) sales of the fertilizer and other products generated from the waste treatment process, c) sales of energy to the ethanol plant, d) fees related to the utilization of the wet distillers grain made possible by the integration, and e) fees for its "developer" role. If Bion also participates in the ownership and/or operation of the ethanol plant, it would further generate revenue from sales of ethanol and sales of feed products to the CAFO. Sales of wet distillers grain as feed products generally represent 14-20% of the total revenues of an ethanol plant if there is an available market for the wet distillers grain. If Bion also participates in ownership and/or operation of the integrated CAFO (and its facilities), it would generate revenues from the sale of the CAFO's end products.

We believe that our technology platform and the proposed Projects do not involve significant technology risk. Our waste handling technology has been utilized in the past efficiently and has been verified by peer-reviewed data. The other Project components required for an integrated operation, such as CAFO facilities, ethanol plants and solids drying and combustion equipment, all consist of available and fully-tested processes and equipment that do not pose any experimental challenges once properly sized, selected and installed. It is Bion's ability to integrate the component parts in a balanced proportion with large CAFO herds and ethanol production in an environmentally sustainable manner that creates this unique economic opportunity. Bion has a patent pending relating to the Bion integration model described herein. Although we have developed the structure and basic design work related to Integrated Projects, we have not yet actually constructed an Integrated Project. Further, we have not completed the development of all of the System applications that will be necessary to address all targeted markets (such as swine, poultry, etc.) and all geographic areas and we anticipate a continuing need for the development of additional applications and more efficient integration.

The basic integration in a Project will include:

* An ethanol plant and CAFO combination sized to balance the distillers grain by-product of the ethanol production with the feed requirements of the CAFO herd and the energy needs of the ethanol plant with the renewable energy produced by Bion from the CAFO waste stream. Beyond the production of ethanol, the ethanol facility will function as a feed mill for the CAFO herd which will utilize the spent grain from ethanol production in its feed ration, materially reducing the operating expenses (energy and transportation) and capital expenditure requirements (for items such as dryers) and increasing the net energy efficiency of ethanol production;

* Additionally, the ethanol plant will be a source of waste heat (which, if not productively utilized, would increase ethanol production costs for required disposal) that will be used to pre-heat the CAFO waste stream to maintain temperatures throughout the co-located Bion System. In colder climates, additional uses of this waste heat will potentially include heating some of the CAFO facilities;

* Drying and processing of the fine solids portion of the CAFO's waste stream into a value-added, marketable, organic fertilizer and/or high protein feed product ingredients; and

* Processing, drying and combusting the coarse solids portion of the CAFO's manure stream to produce heat used for solids drying and to replace natural gas usage by the ethanol production process.

In order to implement this plan, Bion must work with both CAFO's and ethanol producers to generate multi-party agreements pursuant to which the Integrated Projects will be developed and which will provide that at least the following take place: a) the CAFO and ethanol plant agree to locate in geographic proximity to each other, b) Bion licenses, constructs and operates its System to process the CAFO's waste stream and produce renewable energy and other products therefrom, c) the CAFO agrees to purchase and utilize the wet distillers grain by-product of the ethanol plant in its feed ration and d)the ethanol plant agrees to purchase and utilize the renewable energy produced by Bion from the CAFO waste stream in the place of natural gas or

other energy purchases. These agreements could be in the form of joint ventures, in which all parties share the cost of construction of all of facilities in the Integrated Project (in negotiated uniform or varied manners across the various facilities), or in other forms of multi-party agreements including agreements pursuant to which Bion would bear the cost of construction of its System and the owners of the CAFO and the ethanol plant would bear the cost of construction of the CAFO facilities and ethanol plant, respectively, and negotiated contractual arrangements would set forth the terms of transfer of products (wet distillers grain, combustible dried solids, etc.), energy and dollars among the parties.

Corporate Background

The Company is a Colorado corporation organized on December 31, 1987. Our principal executive offices are located at 641 Lexington Avenue, 17th Floor, New York, New York 10022. Our telephone number at that address is 212-758-6622. We have no additional offices at this time.

Development of our Business

Substantially all of our business and operations are conducted through three wholly owned subsidiaries, Bion Technologies, Inc. (a Colorado corporation organized September 20, 1989), BionSoil, Inc. (a Colorado corporation organized June 3, 1996) and Bion Dairy Corporation ("Bion Dairy") (formerly Bion Municipal, Inc., a Colorado corporation organized July 23, 1999). Bion is also the parent of Bion International, Inc. (a Colorado corporation organized July 23, 1999), which is a wholly owned, presently inactive subsidiary. Bion is also the parent of Dairy Parks, LLC (an inactive Delaware entity organized July 25, 2001). In January 2002, Bion entered into a series of transactions whereby the Company became a 57.7% owner of Centerpoint Corporation (a Delaware corporation organized August 9, 1995) ("Centerpoint").

Although we have been conducting business since 1989, we determined that we needed to redefine how we could best utilize our technology during fiscal year 2002. Since that time, we have been working on technology improvements and applications and in furtherance of our business model of Integrated Project development leading toward construction and operation of an initial Integrated Project.

Our original systems were wastewater treatment systems for dairy farms and food processing plants. The basic design was modified in late 1994 to create Nutrient Management Systems ("NMS") that produced organic soil products as a byproduct of remediation of the waste stream when installed on large dairy or swine farms. Through June 30, 2001, we sold and subsequently installed, in the aggregate, 32 of these first generation systems in 7 states, of which we believe approximately 15 are still in operation in 3 states. We discontinued marketing of our first generation NMS systems during fiscal year 2002. We were unable to produce a business model based on the first generation technology that would generate sufficient revenues to create a profitable business. While continuing to market and operate the first generation systems during the second half of calendar year 2000, we began to focus our activities on developing the next generation of the Bion technology. We no longer operate or own any of the first generation NMS systems.

As a result of our research and development efforts, the core of our current technology was developed during fiscal years 2001-2003. We have

designed and tested Systems that use state-of-the-art, computerized, real-time monitoring and system control with the potential to be remotely accessed for both reporting requirements and control functions. These Systems are smaller, faster and require less capital per animal than our first generation NMS systems. The new generation of Bion Systems is designed to harvest solids used to produce our organic fertilizer and soil amendments or additives(the "BionSoil(R) products") in a few weeks as compared to six to twelve months with our first generation systems.

The first phase of this research and re-development, which was conducted during the summer and fall of 2000 at DreamMaker Dairy, our former research facility located outside Buffalo, New York, accelerated the speed at which we could treat the CAFO waste stream and harvest the solids from the waste (the "Bion Process") in a System which was substantially less than 20% of the size of a comparable first generation system. We began second phase testing and development during the winter of 2000-2001, based on the faster, smaller System design at the DreamMaker Dairy. We placed the System into a configuration of enclosed tanks that fully contained the process. This configuration allowed control and monitoring of the entire System from all inputs through all outputs. This closed tank system gave us the ability to perform complete mass balance calculations (measuring all inputs of the animal waste stream and all outputs from the System, including nitrogen and phosphorus, which are the two elements of most critical concern from a nutrient and water pollution control standpoint, and hydrogen sulfide and ammonia, which are two of the main compounds of critical concern from an air pollution control standpoint) on the System to produce the scientific/technical data necessary to demonstrate definitively the performance of our technology. Essentially, the tank configuration enabled our technical staff to measure the amount and manner of nitrogen and phosphorous removed and the amount and manner of gaseous emissions from the waste stream and compare such quantities to the inputs to the System contained in the CAFO waste stream (also known as a "mass balance analysis"). Initial results of the mass balance analysis calculations demonstrated that phosphorus and nitrogen removals from the total waste stream approximated 80%. Additionally, measurements on the primary odor producing compounds indicated levels low enough to essentially eliminate odor problems associated with CAFO waste handling. In January 2002, we announced results of testing the fully contained Bion prototype at DreamMaker Dairy. The goals of that initiative (which were successfully reached) were to:

* Increase the efficiencies of the first generation system;
* Convert the core Bion technology into an operating System that could be integrated with complementary technologies; and
* Develop a computerized monitoring and control system capable of precise measurements and adjustments and remote reporting.

During 2003 we designed, installed and began testing a commercial scale, second generation Bion System as a modification or retrofit to a waste lagoon on a 1,250 milking cow dairy farm in Texas known as the DeVries Dairy. In December 2004, Bion published an independently peer-reviewed report, a copy of which may be found on our website, www.biontech.com, with data from the DeVries project demonstrating a reduction in nutrients (nitrogen and phosphorus) of approximately 75% and air emissions of approximately 95%. More specifically, those published results indicated that on a whole farm basis, the Bion System produced a 74% reduction of nitrogen and a 79%

reduction of phosphorus. The air results show that the Bion System limited emissions as follows: (in pounds per 1,400 pound dairy cow per year):

* Ammonia 0.20
* Hydrogen Sulfide 0.56
* Volatile Organic Compounds 0.08
* Nitrogen Oxides 0.17

These emissions represented a reduction from published baselines of 95%-99%.

The demonstration project at the DeVries Dairy in Texas (which remains in operation) has also provided Bion with the opportunity to explore mechanisms to best separate the processed manure into streams of coarse and fine solids, with the coarse solids supporting generation of renewable energy and the fine solids potentially becoming the basis of organic fertilizer products and/or a high protein animal feed ingredients.

For the past two years, Bion has focused on completing development of its technology platform and business model. As such, we have not pursued near term revenue opportunities such as retrofitting existing CAFO's with our waste management solutions, because such efforts would have diverted scarce management and financial resources and negatively impacted our ability to complete development of an integrated technology platform in support of large-scale sustainable Integrated Projects. We believe significant retrofit opportunities exist that may enable us to generate additional future revenue streams from Bion's technology. However, Bion's management team remains focused on implementation of its integrated technology platform as the basis for development of its large-scale Projects, which represents our long-term strategic goal.

We currently anticipate that Bion will be the developer and manager of, and a direct participant in and/or owner of components of, the Projects. As such, Bion will:

* Locate, secure and develop appropriate sites;

* Negotiate agreements with both input providers and in certain instances end-product users;

* Secure required permits based upon clear standards that establish acceptable environmental operating parameters for each component of the Integrated Projects;

* Manage construction and operation of the Projects; and

* Provide its waste treatment services to CAFO operators for a fee while producing renewable energy for on-site use (including sale to the ethanol plant) and fine solids products for sale.

In turn, the CAFO operator will use the wet distiller grains from the ethanol plant as a feed component for the herd at a long-term competitive price. The CAFO facilities, which will be subject to permits imposing standards limiting their emissions and releases, can be owned either by the CAFO operator or by an independent third party finance source and subsequently leased to the CAFO operator. The CAFO operator will be

responsible to provide its herd and operate the CAFO. In some instances, Bion

will own direct interests in the CAFO herd, ethanol plant, end-product user and/or the related facilities in addition to its ownership interest in the Bion System.

In June 2006, the Company entered into an agreement with Fair Oaks Dairy Farm ("FODF") to construct a Bion research facility ("Stage I System") at FODF. Bion has been working with FODF since May 2005 for the purpose of installing a waste treatment facility at FODF that could become the basis for a future Integrated Project. The June 2006 agreement contemplates expansion beyond the initial waste treatment facility. The Stage I System will initially be used for testing necessary for: a) finalization of design criteria for permitting and construction of, and b) optimization of renewable energy production and utilization for, a full scale Integrated Projects. We are currently in negotiations toward an amended agreement with FODF pursuant to which: a) the Company will construct a commercial scale Bion System designed to handle the waste stream from approximately 3,500-6,200 milking cows ("Initial System") at existing FODF facilities in Indiana which will incorporate and expand the scope of the Stage I System; and b) when the Initial System has completed start-up phase and demonstrated environmental results consistent with the DeVries results set forth above, the Initial System will become the basis of expansion into an Integrated Project at FODF through development stages including dairy expansion, construction of additional Bion System modules including renewable energy production and solids processing facilities and construction of an ethanol plant. It is anticipated that the amended agreement will be executed during fiscal 2007. Preliminary engineering, design and site work at FODF has begun pursuant to the existing agreement and we anticipate commencement of construction during 2007. We anticipate completion of development of this Integrated Project during 2008-9.

Acquisition of Centerpoint/Transactions with Centerpoint

On January 15, 2002, Bion issued 1,900,000 shares of its restricted common stock, valued at $7.50 per share, to Centerpoint, in exchange for $8,500,000 in cash and the assignment of claims relating to Centerpoint's transaction with Aprilia and other rights owned by Centerpoint for total consideration of $14,250,000. Immediately upon consummation of the transaction with Centerpoint, Bion purchased a 57.7% majority interest in Centerpoint from Centerpoint's Italian parent, OAM, S.p.A. ("OAM") by issuing 100,000 shares of our common stock to OAM, a warrant to purchase an additional 100,000 shares of common stock valued at $380,000, $3,700,000 of cash, assignment of a loan receivable valued at $3,263,000 and its rights acquired under claims receivable acquired from Centerpoint valued at $2,487,000.

The agreements required additional Bion shares to be issued to Centerpoint and OAM if the Company raised equity at a price less than $7.50 per share before the cumulative investment in the Company from unaffiliated third parties, from the date of this transaction equaled $5 million. The number of additional shares to be issued would have been determined through a formula calculating the additional number of shares Centerpoint and OAM would have received if the transactions were consummated at the price per share of the subsequent equity financing. The Centerpoint transaction also required

conversion of $14,256,779 of notes payable (including interest) into 1,900,911 shares of our common stock. In addition, warrants to purchase 213,263 shares of our common stock had their exercise price decreased to $7.50 and $6.00. As described above, if the Company raised equity at a price less than $7.50 per share, the Company would have needed to issue additional shares to the former holders of the converted notes as if the notes were converted into shares of the Company's common stock at the price per share of the subsequent equity financing.

The adjustment provisions in these agreements made it impossible for Bion to raise additional needed funds from the middle of 2002 through February 2003 (at which time Bion had run out of cash and liquid resources). This resulted in the financial crisis (and subsequent management turnover and curtailment of Bion's activities) described below. These provisions were finally amended in August 2003 as described below.

In March 2002, the Company and Centerpoint entered into an agreement effective January 15, 2002 whereby Centerpoint agreed to pay the Company $12,000 per month and issued a warrant to purchase 1,000,000 shares of Centerpoint's common stock at $3.00 per share exercisable until March 14, 2007 for management services, support staff and office space. In addition, the Company agreed to advance to Centerpoint funds needed to cure its delinquencies with the SEC, distribute the Company's common shares to Centerpoint shareholders, to locate and acquire new business opportunities and for ongoing expenses. The Company had no obligation to make any advances in excess of $500,000. All funds due the Company were evidenced by a convertible revolving promissory note, which bore interest at 1% per month, payable with accrued interest on March 15, 2003. This date was extendable by agreement between the Company and Centerpoint. The Company had the right to convert, at any time, all or a portion of the amount due under the promissory note in shares of Centerpoint's common stock at a conversion price of $3.00 per share.

During March 2003, the Company and Centerpoint entered into an agreement (amended on April 23, 2003) which forgave sums due from Centerpoint to Bion (approximately $450,000 at that time) and cancelled the warrants issued by Centerpoint to Bion in consideration of amending the terms of the January 2002 agreement between Bion and Centerpoint to remove the adjustment provisions (and other related provisions) described above. The shareholders of Centerpoint ratified the agreement on August 25, 2003. Such ratification enabled Bion to complete an agreement with OAM, S.p.A. on August 27, 2003 that removed the balance of the adjustment provisions.

Centerpoint delivered the shares of Bion it owned to its shareholders during January 2004. Centerpoint now has only nominal assets other than 631,528 Bion shares that it holds in anticipation of future delivery to its shareholders, of which shares Bion is the "beneficial owner" of approximately 57.7% (approximately 399,011 shares) based on its ownership of Centerpoint. Centerpoint has declared a dividend of these shares to be distributed if and when a registration statement covering such shares is declared effective. When and if Centerpoint delivers the Bion shares to its shareholders, the Company will cancel the shares it receives and Centerpoint will effectively be a publicly held shell corporation.

Financial and Management Crisis (2003-2005)

Bion suffered from severe financial difficulties commencing during the fall of 2002 and, as a result, elected to cease being a reporting company during January 2004 by filing a Form 15. These financial difficulties resulted in the resignation of nearly all of our officers and directors during February and March of 2003, and the termination of most of our employees. New management was able to retain our core technical staff, but we had to drastically curtail our business activities to include only those activities that were directly needed to complete development and testing of our second-generation technology as described above. The Company's financial difficulties resulted primarily from its inability to raise additional funds due to:

* Contractual anti-dilution provisions that were contained in the agreements related to the Centerpoint transactions that were completed during January 2002, and

* Fiduciary breaches by prior control persons of Centerpoint related to refusing to work with Bion to amend the anti-dilution provisions and multiple other matters;

which combined to undermine the Company and to prevent any reasonable financing from being completed by the Company. See Description of Business, Risk Factors, "We are currently involved in significant litigation."

The Company became aware of the negative implications of these anti-dilution provisions during the summer of 2002 while attempting to structure a needed financing, which financing attempts ultimately failed in January of 2003. Management attempted to either find alternative financing methods which could be reasonably completed and/or negotiate an amendment to amend or release such provisions. The inability to obtain an agreement to amend these provisions from the late summer of 2002 through February/March 2003 (and other related events) caused the Company's financial and management crisis. After months of negotiations commencing during February 2003, new management negotiated and executed agreements related to amending such provisions during late May 2003 and the provisions were finally amended effective August 27, 2003.

Thereafter, the Company was able to complete several relatively small financing rounds through Bion Dairy, one of our subsidiaries, during August-November of 2003 and May-June 2004. These financings enabled the Company to continue development work on our technology, but our operations were severely damaged during the period without financing. Not only did we have to terminate most of our activities and employees, but also we operated under such dire financial constraints through 2004 that the Company lost credibility with its historic vendors, creditors, the financial community and its existing shareholders and investors. As a result, the market price for the Company's stock fell sharply. In order to continue with our business activities and save the Company, we had to structure interim financing on extremely dilutive terms which has negatively affected our shareholders and will probably continue to negatively impact our ability to obtain future financing on reasonable terms.

On September 30, 2005, the Company, through Bion Dairy, completed a $1,917,500 placement of convertible debt that caused, in conjunction with the Company's technical and financial progress, conversion of 100% of Bion Dairy's convertible debt ($5,239,489, in aggregate, principal and accrued interest) into 3,847,217 shares of Bion's restricted common stock on that

date. This closing and conversion marked the completion of Bion's recovery from the crisis it faced during 2003.

While we no longer face a severe working capital shortage, we still have no revenues. The Company will need to obtain additional capital to carry forward its operations and technology development and to satisfy existing creditors. There is no assurance the Company will be able to obtain the funds that it needs to stay in business, complete its technology development or to successfully develop its business.

Recent Financings

SERIES A, A*, B and B* NOTES OF BION DAIRY

On August 25, 2003, Bion Dairy closed an initial stage of financing that consisted entirely of 2003 Series A Secured Convertible Notes ("Series A Notes") totaling $1,117,500 (including issuance of notes to Chris-Dan, LLC ("Chris-Dan") in consideration of cancellation/exchange of $600,000 of prior advances from Bright Capital, Ltd. ("Brightcap") (Brightcap and Chris-Dan are owned by Dominic Bassani, General Manager of Bion Dairy from April 2003 through September 2006 and a now full-time consultant to the Company) and of $65,000 of prior advances from affiliates of David Mitchell, the former CEO of Bion). $65,000 of the Series A Notes were sold to Mark A. Smith, our President. During November 2003, $400,000 of Series A* Notes were sold to our affiliate Centerpoint. During April 2004, an additional $165,427.33 of Series A* Notes were sold to Chris-Dan bringing the total issuance of Series A & A* Notes to $1,747,927.30. The Series A & Series A* Notes are identical in all material aspects.

During the spring of 2004, Bion Dairy sold $785,000 of 2003 Series B Secured Convertible Notes ("Series B Notes"), including $10,000 to Mark A. Smith, our President. On June 30, 2004, Bion Dairy sold $315,000 Series B* Notes to Centerpoint and $59,172.18 to Chris-Dan (in exchange/cancellation of prior advances from Brightcap) for a total issuance of $1,159,172.18 of Series B & Series B* Notes. The Series B and Series B* Notes are identical in all material aspects.

At June 30, 2005, the largest holder of the Series A, A*, B and B* notes was Chris-Dan which owned $974,599.51 original principal of the notes. The second largest note holder was Centerpoint which owned $715,000 principal amount. Bion owned $75,000 of the notes, which it received from Mark A. Smith, our President, on May 31, 2004.

All of these notes were converted as described below.

Additionally, on May 31, 2004 Mark A. Smith, our President, purchased $135,000 of convertible promissory notes from the Company for cash (convertible into our common stock at $1.50 per share) and exchanged his Bion

Dairy Series A & Series B Notes (described above) for convertible notes of the Company with identical conversion prices. All of Mr. Smith's notes were converted into restricted common stock of the Company (209,997 shares, in aggregate) on December 31, 2005. Further, Mr. Smith converted $55,000 and $60,000 of deferred compensation to 50,000 and 30,000 shares of the Company's restricted common stock on December 31, 2004 and 2005, respectively.

SERIES C NOTES AND CONVERSION OF SERIES A, A*, B, B* & C NOTES OF BION DAIRY

On September 30, 2005, the Company, through Bion Dairy, completed a $1,917,500 placement of Series C Notes that caused, in conjunction with the Company's technical progress and agreements with certain creditors, conversion of 100% of Bion Dairy's convertible debt ($5,239,489, in aggregate, principal and accrued interest) into the Company's restricted common stock on that date according to their terms. The Series C Notes were identical to the other Notes in all material respects except for a $2.00 conversion price.

In conversion of the Series A, A*, B, B*, & C Notes, respectively, the Company issued 1,381,031, 645,753, 581,883, 274,434 and 964,117 shares of its restricted common stock including issuance of:

* 83,340 shares to Bion which have been cancelled as treasury stock (from the Series A & Series B Notes acquired from Mr. Smith as described above);

* 691,528 shares to Centerpoint, of which shares Bion is the "beneficial owner" of 57.7% (approximately 399,011 shares) based on its ownership of Centerpoint. Centerpoint has declared a dividend of these shares. When and if Centerpoint delivers shares to its shareholders, the Company will cancel the shares it receives upon receipt;

* 1,005,692 shares to Chris-Dan, of which Dominic Bassani, former General Manager of Bion Dairy, is the owner.

DECEMBER 2005 PRIVATE PLACEMENT OF COMMON STOCK

On December 23, 2005 Bion closed an offering of its restricted common stock at a price of $4.00 per share that raised net proceeds of $1,136,500. We also issued 3,750 shares of common stock as commissions in connection with the financing.

2006 SERIES A CONVERTIBLE PROMISSORY NOTES

On September 13, 2006, Bion closed an offering of its Series A Convertible Promissory Notes in the principal amount of $700,000. The notes earn interest at the rate of 6%, payable on May 31, 2008, the maturity of the notes. All principal and accrued interest under the notes are required to be converted into common shares of Bion at the rate of $6 per share if the closing market price of Bion's common stock has been at or above $7.20 per share for 10 consecutive trading days and the earlier to occur of (i) an effective registration statement allowing public resale of the shares

received upon conversion of the notes or (ii) one year after September 13, 2006. No conversion may occur unless Bion is a "reporting company" with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended ("Exchange Act"). The notes may also be converted, in whole or in part, at the election of the noteholders.

2007 SERIES A CONVERTIBLE PROMISSORY NOTES

As of March 31, 2007, Bion has sold $700,000 of its 2007 Series A Convertible Promissory Notes to existing investors. The notes earn interest at the rate of 6%, payable on July 1, 2008, the maturity date of the notes.

Principal and accrued interest under the notes is convertible at $4.00 per share. Additionally, Mark A. Smith, our President, agreed to accept $151,645 of the Company's 2007 Series A Convertible Notes in exchange for his deferred compensation for the period from January 1, 2007 through March 31, 2007 and the Company's promissory note issued on January 1, 2007 for Mr. Smith's deferred compensation from April 1, 2006 through December 31, 2006. Salvatore Zizza, Chairman and a Director of Bion's operating subsidiary, Bion Dairy Corporation, and Bright Capital, Ltd. ("Brightcap"), which provide the consulting services of Dominic Bassani to the Bion companies, agreed to accept $379,389 and $455,486, respectively, of the Company's Series A Notes in exchange for their respective deferred compensation for the period from January 1, 2007 through March 31, 2007 and the Company's promissory notes issued on January 1, 2007 for their respective deferred compensation owed by Bion on December 31, 2006.

Competition

There are a significant number of competitors in the waste treatment industry who are working on animal related pollution issues. This competition is increasing with the growing governmental and public concern focused on pollution due to CAFO wastes. Waste treatment lagoons which depend on anaerobic microorganisms ("anaerobic lagoons")are the most common traditional treatment process for animal waste on large farms within the swine and dairy industries. These lagoons are coming under increasing regulatory pressure due to associated odor, nutrient management and water quality issues and are facing possible phase-out in some states. Although we believe that Bion has the most economically and technologically viable solution for the current problems, other alternative (though partial) solutions do exist including, for example, synthetic lagoon covers (which are placed on the top of the water in the lagoon to trap the gases), methane digesters (a tank which uses anaerobic microorganisms to break down the waste to produce methane), multistage anaerobic lagoons and solids separators (processes which separate large solids from fine solids). Additionally, many efforts are underway to develop and test new technologies.

Our ability to compete is dependent upon our ability to obtain required approvals and permits from regulatory authorities and upon our ability to introduce and market our Systems in the appropriate markets.

There is also extensive competition in the ethanol production, potting soil, organic soil amendment, fertilizer and organic fertilizer and feed ingredient markets. There are many companies that are already selling products to satisfy demand in the sectors of these markets we are trying to enter. Many of these companies have established marketing and sales organizations and retail customer commitments, are supporting their products with advertising, sometimes on a national basis, and have developed brand name recognition and customer loyalty in many cases.

Dependence on One or a Few Major Customers

We will be dependent upon one or a few major customers. Our business model is focused on development of Integrated Projects. We anticipate initially developing, owning interests in, and operating only one or a few fully Integrated Projects commencing during fiscal 2007, and, thereafter, developing a limited number of Projects at a time. Thus, at least for the near future, our revenues will be dependent on a few major Projects or

customers.

Patents

We are the sole owner of eight United States patents, one Canadian patent, one patent from Mexica and one New Zealand patent:

* U.S. Patent No. 4,721,569, Phosphorus Treatment Process, expires April 2007.
* U.S. Patent No. 5,078,882, Bioconversion Reactor and System, expires March 2010.
* U.S. Patent No. 5,472,472, Animal Waste Bioconversion System, expires September 2013.
* U.S. Patent No. 5,538,529, Bioconverted Nutrient Rich Humus, expires August 2014.
* U.S. Patent No. 5,626,644, Storm Water Remediatory Bioconversion System, expires October 2015.
* U.S. Patent No. 5,755,852, Bioconverted Nutrient Rich Humus, expires July 2016.
* U.S. Patent No. 6,689,274, Low Oxygen Waste Bioconversion System, expires November 2020.
* U.S. Patent No. 6,908,495, extension of Low Oxygen Waste Bioconversion System, expires June 2023.
* Canadian Patent No. 1,336,623, Aqueous Stream Treatment Process, expires August 2012.
* New Zealand Patent No. 526,342, Low Oxygen Organic Waste Bioconversion System, expires November 8, 2021.
* Mexican Patent No. 240,124, Low Oxygen Organic Waste Bioconversion System, expires November 8, 2021.

On April 15, 2005, we filed a patent application titled "Low Oxygen Biologically Mediated Nutrient Removal." The application number is 11/106,751.

On November 3, 2006, we filed a patent application titled "Low Oxygen Biologically Mediated Nutrient Removal." The application number is 11/592,513. On November 3, 2006, we also filed a patent application titled "Environmentally Compatible Integrated Food and Energy Production System." The application number is 11/592,511.

In addition to such factors as innovation, technological expertise and experienced personnel, we believe that a strong patent position is increasingly important to compete effectively in the businesses on which we are focused. It is likely that we will file applications for additional patents in the future. There is, however, no assurance that any such patents will be granted.

It may become necessary or desirable in the future for us to obtain patent and technology licenses from other companies relating to technologies that may be employed in future products or processes. To date, we have not received notices of claimed infringement of patents based on our existing processes or products, but due to the nature of the industry, we may receive such claims in the future.

We generally require all of our employees and consultants, including our management, to sign a non-disclosure and invention assignment agreement upon employment with us.

Research and Development

During the year ended June 30, 2006 we expended $3,809,716 (including non-cash expenditures) and $1,030,717 during the six months ended December 31, 2006 (including non-cash expenditures) on undertaking research and development related to our technology platform applications in support of large-scale, economically and environmentally sustainable Integrated Projects. Bion's main efforts were directed at further development of our technology and its applications based primarily on activities at the DeVries Dairy. In addition, substantial research and development activity was focused on design and refinement of all aspects of the technology and integration engineering related to the energy balances, renewable energy production and on-site utilization, related to Integrated Project issues and our business model. Research activities have focused on factors related to coarse solid recovery, drying and use for renewable energy production, as well as fine solids recovery, drying and utilization as fertilizer and/or animal feed. On-going research related to reduction of nutrient releases and gaseous emissions from CAFO waste streams also took place at the DeVries dairy facility and elsewhere.

During the year ended June 30, 2005, we expended $1,212,531 (including non-cash expenditures) conducting research and development on similar matters as described for the periods during 2006 above.

Environmental Protection/Regulation

In regard to development of Projects, we will be subject to extensive environmental regulations related to CAFO's and ethanol production. To the extent that we are a provider of systems and services to others that result

in the reduction of pollution, we are not under direct enforcement or regulatory pressure. However, we are involved in CAFO waste treatment and are impacted by environmental regulations in at least four different ways:

* Our marketing and sales success depends, to a substantial degree, on the pollution clean-up requirements of various governmental agencies, from the Environmental Protection Agency (EPA) at the federal level to state and local agencies;

* Our System design and performance criteria must be responsive to the changes in federal, state and local environmental agencies' effluent and emission standards and other requirements;

* Our System installations and operations require governmental permit approvals in many jurisdictions; and

* To the extent we own or operate Integrated Projects including CAFO facilities and ethanol plants, those facilities will be subject to environmental regulations.

Employees

As of March 31, 2007, we had 11 employees and consultants, all of whom are full-time except for Jere Northrop, our Senior Technology Director, who works for the Company on a part-time basis. Our future success depends in significant part on the continued service of our key technical and senior management personnel. The competition for highly qualified personnel is intense, and there can be no assurance that we will be able to retain our key

managerial and technical employees or that we will be able to attract and retain additional highly qualified technical and managerial personnel in the future. None of our employees is represented by a labor union, and we consider our relations with our employees to be good. None of our employees is covered by "key person" life insurance.

RISK FACTORS

WE ARE AN EARLY STAGE COMPANY.

We have had no System sales since late 2001 when we ceased marketing our first generation animal waste processing systems. Therefore, our Financial Statements show no operating revenue for the relevant periods. Since 2001, the Company has focused its activities on developing, testing and demonstrating the next generation of its technology and developing its business model. Although the Company has developed its integration model, it has not yet implemented its model by development, construction or operation of an Integrated Project. The Company has had no significant sales or revenues while it has been in this technology re-development stage and has accrued substantial losses to date.

Further, potential investors should be aware of the difficulties faced by a new enterprise, especially in view of the intense competition from existing and more established companies in the wastewater, waste management, environmental control, CAFO, alternative energy and soils products industries. During the past several years we curtailed our commercial operations to focus on research and development activities associated with

our second-generation System and our potential development of Integrated Projects. Consequently, we have very little relevant history of commercial operations and we have never achieved any significant revenues.

Additionally, potential investors should be aware that Bion has never developed an Integrated Project and does not have the financial resources to do so at this date. Further, to the best of our knowledge no one has ever developed and operated an economically and environmentally sustainable CAFO/renewable energy/ethanol Integrated Project with either the size or scope of integration contemplated by the Company.

WE HAVE INCURRED SUBSTANTIAL LOSSES AND MAY NEVER ACHIEVE PROFITABILITY.

From inception to date, neither Bion nor its subsidiaries have sustained any profitable operations. As set forth in the Financial Statements, during the years ended June 30, 2006 and 2005, respectively, we had net losses of $5,173,294 and $2,115,332. Our net loss for the six months ended December 31, 2006 was $1,799,944. Through December 31, 2006 we have an accumulated deficit of $71,814,345.

We are in the process of completing development of applications of our new generation of technology and expect to commence development of Projects based on applications of this technology during fiscal 2007. Although we expect to eventually generate revenues from the sale and/or operation of our Systems and/or related Projects, the integration opportunities created by these Systems and the related renewable energy and/or by-products, and pollution reduction credits to pay our future operating expenses, there can be no assurance that profitable operations will ever be achieved or sustained. We are still dependent upon infusions of capital from investors and proceeds from loans to enable us to continue in business. We believe that

we will not generate sufficient operating cash flow to meet our needs in the near term without additional external financing. Although we have recently signed an engagement letter with a securities firm to act as our financial advisor and placement agent, there is no assurance that our efforts to obtain such financing will be successful. Any failure on our part to do so will have a material adverse impact on us and may cause us to cease operations. In the event we are unable to achieve sustained profitable operations in the future, it is likely that any investment in our shares or other securities will ultimately be lost.

GOING CONCERN OPINION.

Our financial statements have been prepared assuming that we will continue in business as a going concern. As discussed above, we have previously suffered significant losses. The report of our independent registered public accounting firm on the Company's financial statements as of and for the year ended June 30, 2006 includes a "going concern" explanatory paragraph which means that the accounting firm expressed substantial doubt about our ability to continue as a going concern. Management's plans with respect to these matters are described in Item 2 and in our financial statements. Our financial statements do not contain any adjustments that might result from this uncertainty.

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OUR OPERATIONS WILL DEPEND ON THE EFFORTS OF OUR MANAGEMENT TEAM AND OUR BUSINESS WILL SUFFER IF WE LOSE THE SERVICES OF ANY KEY EMPLOYEES.

We are completely dependent upon the efforts and abilities of our team of officers, directors, employees and consultants to manage and operate our business. We do not currently carry any "key man" life insurance coverage on any of our key personnel. Although none of our officers or directors has experience in the management of any profitable entity that has engaged in our area of business, the loss of the services of any of these persons could have a material adverse impact on our business, results of operations and financial condition.

WE NEED TO HIRE ADDITIONAL MANAGEMENT AND TECHNICAL PERSONNEL TO IMPLEMENT OUR PLANS.

As we move from the research and development of our technology to implementation of our plans to develop Integrated Projects, we must continue to hire operational management and technical personnel. While we have hired Mr. Sal Zizza as Chairman, Mr. Jeremy Rowland as our Chief Operations Officer and Mr. Jeff Kappel as our Vice-President of Renewables, we must still hire other management and technical personnel to implement our strategy. If we are unable to attract qualified personnel, we may be delayed in the implementation of our business strategy or we may be unable to implement our strategy.

WE HAVE NUMEROUS AGREEMENTS WITH RELATED PARTIES THAT COULD CREATE CONFLICTS OF INTEREST.

At present we have numerous agreements with related parties. See Item 7. Certain Relationships and Related Transactions. Moreover, we have from time-to-time entered into various employment, consulting and other agreements with related parties pursuant to which we have paid these related parties in cash, stock and/or options. See Item 6. Executive Compensation. We believe

that all of these agreements were negotiated on terms at least as favorable to us as those which could have been obtained from unaffiliated persons; however, our business, results of operations and financial condition could be materially adversely affected by conflicts of interest.

OUR TECHNOLOGY HAS BEEN LIMITED TO A FEW POTENTIAL MARKETS AND MAY NOT ATTRACT ENOUGH CUSTOMERS TO BE SUCCESSFUL.

Our current generation technology platform to date has been re-developed and tested only for dairy applications and has not yet been expanded into other markets such as beef feedlots, hogs or poultry. We have not yet completed the development of all of the System applications that will be necessary to address targeted markets and geographic areas and we anticipate a continuing need for the development of additional applications. Further, there will be extensive design and planning work needed to implement the integration opportunities created by our technology to successfully develop Integrated Projects. During both our current and recent fiscal years, we have continuously made a substantial investment in developing our new generation technology and related integration business model. Although we believe that

our existing technology is sufficient to support development of the Projects and additional commercial applications, no assurance can be given that new applications can be developed or that existing or new applications will achieve commercially viable sales levels.

We have not conducted formal market studies with respect to our technology and services. We anticipate that achieving any significant degree of market acceptance for our Systems and products will require substantial marketing efforts and significant expenditures to inform regulators, potential customers, and potential industry partners of the distinctive characteristics and benefits of our products and the Projects. We cannot give any assurances that our targeted customers will accept our proposed products. We also cannot give any assurance that we will ever realize substantial revenues from the sale of our Systems or through development and operation of Projects.

WE FACE INTENSE COMPETITION THAT COULD ADVERSELY AFFECT OUR FINANCIAL PERFORMANCE.

Although we believe that our technology offers many significant advantages over other competing technologies and systems as to both environmental clean-up of CAFO waste streams and the integration opportunities it creates, competition in these industry sectors is intense. We are in direct competition with local, regional and national engineering and environmental consulting firms and soils products companies. Some of our competitors may be capable of developing soils products or waste and wastewater treatment systems similar to ours or based on other competitive technologies. Many of our potential competitors are well established and have much greater financial and other resources than we do.

OUR SYSTEMS COULD BECOME OBSOLETE AND WE MAY NOT BE ABLE TO KEEP UP WITH CHANGES IN TECHNOLOGY.

Our business is susceptible to changing technology. Although we intend to continue to develop and improve our Systems, there is no assurance that funds for such expenditures will be available or that our competitors will not develop similar or superior capabilities.

OUR PATENT AND TRADE SECRET PROTECTION EFFORTS MAY NOT BE ADEQUATE TO PROTECT OUR TECHNOLOGY.

While we have protection from 8 U.S. patents, 3 foreign patents and 3 patents pending, and we intend to develop and file additional patent applications and to obtain other appropriate protection for our technology, including the use of nondisclosure contract provisions and license arrangements which prohibit the disclosure of our proprietary processes, there can be no assurance that we can effectively protect against unauthorized duplication of our patents or the introduction of substantially similar products. Our ability to compete with other companies is materially dependent upon the proprietary nature of our patents and technologies. We cannot give assurances that we will be able to obtain any additional key patents or other protection for our technology. In addition, if any of our key patents or proprietary rights were invalidated, there could be an adverse effect on our business, results of operations and financial condition.

OUR BUSINESS IS AFFECTED BY GOVERNMENT REGULATIONS THAT CHANGE.

To date, we have been a provider of technology, Systems and services that result in the reduction of pollution and, therefore, we have not been under direct enforcement or regulatory pressure. However, if and when Integrated Projects have been constructed and begin operation, we may be under direct enforcement.

We are involved in waste and wastewater treatment and are impacted by environmental regulations in at least three different ways: (1) our marketing and sales success depends, to a substantial degree, on the pollution clean-up requirements of various governmental agencies, from the Environmental Protection Agency at the federal level to state and local agencies; (2) our System design and performance criteria must be responsive to the changes in federal, state and local environmental agencies' effluent standards and other requirements; and (3) our System installations and operations require governmental permits or approvals in many jurisdictions. In addition, we depend on the varying strictness of enforcement policies of various governmental bodies.

We also intend to manufacturer and provide soil amendments (soil additives which are high in organic matter but low in nutrients) and fertilizers. Some state and federal regulatory agencies have standards that these products must meet to be sold as soil amendment or fertilizer products in various markets. The production and sales of our fertilizer products will need to meet relevant federal and state requirements. These regulations can change which creates a level of unpredictability.

ADDITIONALLY, ETHANOL PRODUCTION IN PROJECTS WILL BE SUBJECT TO NUMEROUS REGULATIONS.

We are continually reviewing current regulations and potential changes that may affect our business and are making necessary compliance efforts in all jurisdictions in which we do business. We believe that Bion's technology will allow compliance with both current and proposed federal, state and local regulations. We are in the business of helping our customers (including Projects and facilities in which we may become direct participants) solve problems associated with their discharge of their waste streams into the environment, and most of our Systems and services are subject to federal, state and local government regulation, and many are subject to extensive testing procedures. The effects of rulings of regulatory bodies and courts

could delay our marketing efforts for a long time and ultimately could prevent the completion of Projects. The regulations pertaining to the environment that may impact our Systems and Projects are continually changing. While we believe that such regulatory changes are favorable to our business since such regulations may require the use of our Systems, there can be no assurance that, in the future, such regulations will not cause us additional economic expense or have a materially adverse effect on our business, results of operations and financial condition.

WE ARE CURRENTLY INVOLVED IN SIGNIFICANT LITIGATION.

Bion, our President Mark A. Smith and Bion Dairy are defendants in a class action/derivative action lawsuit in Delaware Chancery Court (TCMP#3 Partners, LLP, et al v. Trident Rowan Group, Inc., et al, Civil Action No. 170-N). The claims against the Company primarily relate to the January 2002 transaction with Centerpoint. The Plaintiffs basically allege in multiple claims denoted as fraudulent and negligent misrepresentation, promissory estoppel, and corporate waste, that Bion breached its fiduciary duties to Centerpoint and its shareholders and/or aided and abetted others in breaching their duties and was unjustly enriched as a result of these actions. Further, the plaintiffs allege that Bion, Bion Dairy and Mr. Smith breached their duties to Centerpoint and its shareholders in connection with Centerpoint's investments in Series A* and Series B* Notes of Dairy. This litigation is in the early stages of discovery and motion practice. Settlement discussions are under way at the present time and the parties have participated in voluntary, non-binding mediation to attempt to resolve the disputed matters, which mediation has led to a contingent settlement agreement. This agreement is contingent on settlement of the matter described in the paragraph below. If a reasonable settlement is not reached in the matter described below and, if this contingent settlement is not completed, the Company, Bion Dairy and Mr. Smith intend to vigorously defend the claims against them. Management believes that the claims against Bion, Bion Dairy and Mr. Smith are without merit and that such parties will prevail if the litigation eventually proceeds to trial. However, litigation costs (of which a substantial amount has already been expended) can have a material adverse effect on companies the size of Bion and Bion Dairy. Therefore, if a reasonable settlement can be negotiated, Bion and Bion Dairy may enter into such a resolution of the litigation.

Additionally, the Company has drafted (on behalf of itself and Centerpoint and Bion's shareholders) a complaint against the former controlling shareholders and related persons of Centerpoint for damages related to the Company's financial crisis, which were caused by their breaches of their fiduciary duties to Bion, Centerpoint and their shareholders. The potential defendants have executed tolling agreements through 30 days after the failure of the settlement in principle and the litigation has not yet been commenced while the parties engage in settlement discussions. Extended settlement discussions have taken place related to these matters and agreements in principle have been reached (subject to due diligence inquiries, drafting and execution of definitive agreements, and court approvals). If these settlements are concluded on terms similar to those under discussion, Bion will be making no payments. Rather, Bion and Centerpoint and the Bion shareholder class will be receiving substantial asset transfers and Bion and Centerpoint will receive cash sufficient to

offset a large part of the portion their attorneys' fees expended to date (in these two related matters) that have not been reimbursed by insurance carriers. However, there is as yet no assurance that these settlements will successfully be concluded.

On May 6, 2002, Arab Commerce Bank Ltd. ("ACB"), an unaffiliated party, filed a complaint against the Company in the Supreme Court of the State of New York regarding $100,000 of the Company's convertible bridge notes ("ACB Notes") that were purchased by ACB in March of 2000. The complaint includes a breach of contract claim asserting that the Company owes ACB $265,400 plus

interest or $121,028 including interest based on ACB's interpretation of the terms of the ACB Notes and subsequent amendments. Effective June 30, 2001, the Company issued ACB 5,034 shares of common stock in full payment of its ACB Note based on the Company's interpretation of the ACB Note, as amended. The Company has filed an answer to the complaint denying the allegations. No activity has taken place in this lawsuit since 2002. The Company believes that the ultimate resolution of this litigation will not have a material adverse effect on the Company, its operations or its financial condition.

WE FACE RISKS OF LITIGATION RESULTING FROM IMPROPER OPERATION OF OUR SYSTEMS.

In order for our waste and wastewater treatment Systems to function properly, the Systems must be operated in accordance with our specifications. In the event that our Systems are not operated properly and environmental violations or other problems occur as a result, it is possible that we could be named as a defendant in litigation brought by governmental agencies and/or individuals. Such litigation could seek, among other things, damages, equitable remedies, punitive damages and penalties. In fact, we were named as a defendant, along with the owners of one of our first generation Systems, in such an action filed by the Attorney General of the State of Illinois alleging environmental violations associated with the operation of a hog farm. While we were able to settle that litigation for approximately $9,000, there can be no assurance that similar litigation will not occur in the future. Litigation of this nature could damage our reputation.

While it is our intention to operate or supervise operation of our second-generation Systems in a manner that precludes such improper operation, there is no assurance that we will be successful in this endeavor.

WE DO NOT CARRY ADEQUATE INSURANCE IN THE EVENT OF SIGNIFICANT ENVIRONMENTAL LITIGATION.

We do not have insurance coverage with respect to the risks of litigation discussed above. Presently we carry only nominal amounts of insurance coverage to cover relatively standard business risks. Management believes such coverage to be adequate for our current operations. It is possible, however, that circumstances might potentially exist that could cause us to be held liable for damage to the environment, such as the negligent design of a System resulting in the aggravation of an existing wastewater problem. We could also be subject to liabilities resulting from other business risks in excess of our current policy amounts. Any such liability, if imposed, could be substantial and would, in all likelihood, have an adverse effect on our business, results of operations and financial condition. Additionally we intend to participate as a principal in Integrated Projects and, therefore, may be exposed to damages for which we do not have adequate insurance in those activities.

RESALES OF OUR PREVIOUSLY RESTRICTED SECURITIES COULD HURT THE MARKET PRICE OF OUR STOCK.

Of our 8,757,904 shares of Common Stock currently outstanding, 5,960,286 shares are "restricted securities" which may in the future be sold upon compliance with Rule 144 adopted under the Securities Act of 1933, as amended. Generally, Rule 144 provides that a person holding restricted

securities for a period of at least one year may sell every three months, in brokerage transactions, an amount equal to the greater of one percent of our outstanding shares of Common Stock or the average weekly reported volume of trading for the securities provided the Company is current on its periodic reports. There is no limitation on the amount of restricted securities that may be sold by a person who has been the beneficial owner of such restricted securities for more than two years, and has not been an "affiliate" for at least 90 days prior to the date of such sales. Investors should be aware that such sales under Rule 144 may cause the price of our Common Stock to drop in the future.

CONVERSION OF OUTSTANDING CONVERTIBLE OBLIGATIONS, EXERCISE OF WARRANTS AND OPTIONS AND CONTINGENT STOCK BONUSES WILL DILUTE OUR CURRENT SHAREHOLDERS.

The future conversion to stock of outstanding obligations for convertible debt and deferred compensation, possible future exercise of warrants and options, and outstanding contingent stock bonuses will result in a significant reduction in the respective percentage interests and voting power held by our shareholders, other than those participating in the conversions, exercises and bonuses. As of March 31, 2007 we are indebted to Mark A. Smith, our President, in the amount of $396,094 (represented by a promissory note) for deferred compensation, which amount is convertible into our common stock at the lower of the current market value at the time of conversion or $2.00 per share. As of March 31, 2007, we are also indebted to Bright Capital, Ltd. ("Brightcap") for services provided to the Company by Dominic Bassani in the amount of $541,690 (represented by a promissory note) with the same conversion feature. Additionally, we are indebted to each of Messrs. Smith and Zizza and Brightcap in the amounts of $151,646, $379,389 and $455,486 respectively pursuant to our 2007 Series A Promissory Notes, which are convertible into our common stock at $4.00 per share. In addition, as of March 31, 2007 we have warrants outstanding to purchase 3,684,010 shares of our common stock at prices ranging from $1.00 to $5.00. As of March 31, 2006 we have also issued 1,745,833 options to purchase our common stock, of which 1,089,167 are currently exercisable at prices ranging from $2.00 to $7.50. Additionally, contingent stock grants have been made totaling 690,000 shares to employees of and consultants to the Company which vest if and when the Company's stock price exceeds $10.00 (492,500 shares) and $20.00 (197,500 shares) per share if the grantee is still providing services to the Company on such dates. Further, we expect to issue additional shares of our Common Stock, warrants and options in connection with engaging further employees or consultants and future financings.

OUR PRIOR FINANCINGS HAVE BEEN SUBSTANTIALLY DILUTIVE AND MAY CONTINUE TO AFFECT OUR ABILITY TO RAISE CAPITAL.

The Company was contractually obligated to respect significant anti-dilution provisions during 2002 which limited its ability to obtain financing. We were unable to correct these anti-dilution provisions until August 2003. Thereafter, the Company was able to complete several relatively small financing rounds through Bion Dairy, one of our subsidiaries, during

August-November of 2003 and May-June 2004. These financings enabled the Company to continue development work on our technology, but our operations

were severely damaged during the period without financing. Not only did we have to terminate most of our activities and employees, but also we operated under such dire financial constraints through 2004 that the Company lost credibility with its historic vendors, creditors, the financial community and its existing shareholders and investors. As a result, the market price for the Company's stock fell sharply. In order to continue with our business activities and save the Company, we had to structure interim financing on extremely dilutive terms which has negatively affected our shareholders and will probably continue to negatively impact our ability to obtain future financing on reasonable terms.

WE DO NOT EXPECT TO PAY DIVIDENDS.

We have never paid any cash dividends on any class of stock in the past. Due to our present financial status and our contemplated financial requirements, we do not anticipate paying any cash dividends upon any class of stock in the immediately foreseeable future.

THE MARKET FOR OUR COMMON STOCK IS VERY LIMITED AND MAY NOT BE MAINTAINED.

Our common stock currently trades "over-the-counter" on the "Pink Sheets." Upon our registration under the Exchange Act, we hope that our stock will be traded over the counter on the OTC Bulletin Board. However, there is currently only an extremely limited and thin trading market in our Common Stock, and there is no assurance that it will continue or that any active trading market will develop or be sustained if developed.

THE MARKET FOR OUR COMMON STOCK IS ADVERSELY AFFECTED BY THE "PENNY STOCK" RULES.

Our Common Stock is currently defined as a "penny stock" under the Exchange Act and rules of the SEC. The Exchange Act and such penny stock rules generally impose additional sales practices and disclosure requirements on broker-dealers who sell our securities to persons other than "accredited investors" or in transactions not recommended by the broker-dealer. For transactions covered by the penny stock rules, the broker-dealer must make a written suitability determination for each purchaser and receive the purchaser's written agreement prior to the sale. In addition, the broker-dealer must make certain required disclosures in penny stock transactions, including the actual sale or purchase price and actual bid and offer quotations, and the compensation to be received by the broker-dealer and certain associated persons, provide monthly account statements showing the market value of each penny stock held in a customer's account, and deliver certain standardized risk disclosures required by the SEC. Consequently, the penny stock rules affect the ability of broker-dealers to make a market in or trade our shares and may also affect the ability of purchasers of shares to resell those shares in the public market.

NASD SALES PRACTICE REQUIREMENTS ADVERSELY AFFECT THE MARKET FOR OUR COMMON STOCK.

In addition to the "Penny Stock" rules described above, the NASD has adopted rules that require that, in recommending an investment to a customer, a broker-dealer have reasonable grounds for believing that the investment is

suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customers' financial status, tax status, investment objectives and other information. Under interpretations of these rules, the NASD believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The NASD requirements make it more difficult for broker-dealers to recommend that their customers buy our Common Stock, and this has an adverse effect on the market for our shares.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

Included in Part F/S are the audited Consolidated Financial Statements for the fiscal years ended June 30, 2006 and 2005 and the unaudited Consolidated Financial Statements of the Company for the three and nine months ended March 31, 2007 ("Financial Statements").

Statements made in this Amendment No. 4 to Form 10-SB that are not historical or current facts, which represent the Company's expectations or beliefs including, but not limited to, statements concerning the Company's operations, performance, financial condition, business strategies, and other information, involve substantial risks and uncertainties. The Company's actual results of operations, most of which are beyond the Company's control, could differ materially. These statements often can be identified by the use of terms such as "may," "will," "expect," "believe," anticipate," "estimate," or "continue" or the negative thereof. We wish to caution readers not to place undue reliance on any such forward looking statements, which speak only as of the date made. Any forward looking statements represent management's best judgment as to what may occur in the future. However, forward looking statements are subject to risks, uncertainties and important factors beyond our control that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected.

These factors include adverse economic conditions, entry of new and stronger competitors, inadequate capital, unexpected costs, failure to gain product approval in the United States or foreign countries and failure to capitalize upon access to new markets. Additional risks and uncertainties that may affect forward looking statements about Bion's business and prospects include the possibility that a competitor will develop a more comprehensive or less expensive environmental solution, delays in market awareness of Bion and our Systems, or possible delays in Bion's development of Projects and failure of marketing strategies, each of which could have an immediate and material adverse effect by placing us behind our competitors. Bion disclaims any obligation subsequently to revise any forward looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements filed with this Report.

BUSINESS OVERVIEW

The Company is currently focused on completion of the development of its second-generation technology which provides solutions for environmentally sound clean-up of the waste streams of large-scale CAFO's and creates economic opportunities for integration of renewable energy production, ethanol production, sustainable animal husbandry and organic soil/fertilizer and feed production. We believe our technology will also allow development of Projects that can also directly integrate with dairy (and other CAFO) end-users and that can potentially increase profitability and quality control of each participant while mitigating the environmental impact of the entire integrated complex. The Company is in the process of finalizing engineering, design and economic modeling for applications and Integrated Projects and expects to select the site for and commence development of its initial Integrated Project during its 2007 fiscal year.

The financial statements for the years ended June 30, 2006 and 2005 have been prepared assuming the Company will continue as a going concern. The Company has incurred net losses of approximately $5,173,000 and $2,115,000 during the years ended June 30, 2006 and 2005, respectively. At June 30, 2006, the Company had a working capital deficiency and a stockholders' deficit of approximately $1,000 and $3,278,000, respectively. The financial statements for the nine months ended March 31, 2007 and 2006 have also been prepared assuming the Company will continue as a going concern. The Company has incurred net losses of approximately $1,884,000 and $3,565,000 during the nine month periods ended March 31, 2007 and 2006, respectively. At March 31, 2007, the Company has a working capital deficiency and a stockholders' deficit of approximately $582,000 and $4,152,000, respectively. The report of the independent registered public accounting firm on the Company's financial statements as of and for the year ended June 30, 2006 includes a "going concern" explanatory paragraph which means that the accounting firm has expressed substantial doubt about the Company's ability to continue as a going concern. Management's plans with respect to these matters are described in this section and in our financial statements, and this material does not include any adjustments that might result from the outcome of this uncertainty. There is no guarantee that we will be able to raise the funds or raise further capital for the operations planned in the near future.

CRITICAL ACCOUNTING POLICIES

Management has identified the following policies below as critical to our business and results of operations. Our reported results are impacted by the application of the following accounting policies, certain of which require management to make subjective or complex judgments. These judgments involve making estimates about the effect of matters that are inherently uncertain and may significantly impact quarterly or annual results of operations. For all of these policies, management cautions that future events rarely develop exactly as expected, and the best estimates routinely require adjustment. Specific risks associated with these critical accounting policies are described in the paragraphs below.

Revenue Recognition

While the Company has not recognized any operating revenues for the past two fiscal years, the Company anticipates that future revenues will be generated from product sales, technology license fees, annual waste treatment fees and direct ownership interests in Integrated Projects. The Company expects to recognize revenue from product sales when there is persuasive evidence that an arrangement exists, when title has passed, the price is fixed or determinable, and collection is reasonably assured. The Company expects that technology license fees will be generated from the licensing of Bion's Systems. The Company anticipates that it will charge its customers a non-refundable up-front technology license fee, which will be recognized over the estimated life of the customer relationship. In addition, any on-going technology license fees will be recognized as earned based upon the performance requirements of the agreement. Annual waste treatment fees will be recognized upon receipt. Revenues, if any, from the Company's interest in Projects will be recognized when the entity in which the Project has been developed recognizes such revenue.

Compensation Cost for Options with Service Conditions and Graded Vesting Schedules

The Company has issued non-employee options that include service conditions and have graded vesting schedules. Generally for these arrangements, the measurement date of the services occurs when the options vest. In accordance with Emerging Issues Task Force Issue No. 96-18, recognition of compensation cost for reporting periods prior to the measurement date is based on the then current fair value of the options. Fair value of the options is determined using a Black-Scholes option-pricing model. Any subsequent changes in fair value will be recorded on the measurement date. Compensation cost in connection with options that are not fully vested is being recognized on a straight-line basis over the requisite service period for the entire award.

Stock-based compensation

On July 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised), "Share-Based Payment" (SFAS 123(R)), which supercedes Accounting Principles Board Opinion No. 25 ("APB 25"), and generally requires that share-based compensation transactions be accounted and recognized in the statement of income based on their fair values. The Company adopted SFAS 123(R)using the modified prospective application under which all share based awards granted on or after the adoption date and modifications, repurchases or cancellation of prior awards made after the adoption date shall be accounted for under SFAS 123(R). The modified prospective application does not require the Company to restate prior period's financial results to reflect the adoption. Pro forma disclosure for prior period issuances of share based grants have been made in the notes to the financial statements and the Company has used the Black-Scholes option pricing model for determining fair value of stock options granted. As of March 31, 2007 the Company had $799,000 of unrecognized compensation cost related to stock options that will be recorded over a weighted average period of approximately 3 years.

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Cumulative Effect of Change in Accounting Principle

In accordance with SFAF 123(R), outstanding instruments previously classified as liabilities and measured at intrinsic values, are to be

measured initially at fair value with differences to be recorded as a cumulative effect of a change in accounting principle. The Company recorded the cumulative effect of a change in accounting principle of $731,000 due to the calculation of the fair value of convertible deferred compensation owed Mark Smith ($1,522,000) and Brightcap ($2,081,475) as of July 1, 2006. The Company will re-measure the fair value of the convertible notes at each reporting period after July 1, 2006, using a Black-Scholes model approach, and record any adjustments as non-cash compensation expense in the re-measurement period. At March 31, 2007, the fair value of deferred compensation owed Mark Smith and Brightcap was re-measured at $871,000 and $1,192,000, respectively and resulted in a credit to earnings of $802,000 and $1,580,000 for the three and nine months ended March 31, 2007, respectively.

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 2007 COMPARED TO THREE MONTHS ENDED MARCH 31, 2006

General and Administrative

General and administrative expenses were ($59,000) for the three months ended March 31, 2007 versus $348,000 for the three months ended March 31, 2006. The decrease in general and administrative expenses of $407,000 was partially due to a credit to non-cash compensation expense to re-measure the President's convertible deferred compensation for the three months ended March 31, 2007 of $(339,000) versus $234,000 to record the intrinsic value of the liability for the three months ended March 31, 2006. The decrease in non-cash compensation was primarily due to: a) the Company's adoption of SFAS 123(R) which measures the fair value of the convertible feature of the liability, versus valuing under the intrinsic value method, and b) the decrease in the price of the Company's common stock from $5.75 to $3.90 per share for the three months ended March 31, 2007 compared to an increase from $4.00 to $4.75 per share for the three months ended March 31, 2006. Offsetting the lower non-cash compensation costs during the three months ended March 31, 2007, were higher rent costs of $33,000 due to the Company obtaining office space in New York effective August 1, 2006. Accounting and tax expenditures were $44,000 higher during the three months ended March 31, 2007 due to income tax preparation, work performed for the December 31, 2006 10QSB and responses to a Securities and Exchange Commission comment letter on the Company's Form 10-SB. The Company also recorded non-cash compensation expense relating to options for the three months ended March 31, 2007 of $58,800.

Research and Development

Research and development expenses decreased from $1,021,000 for the three months ended March 31, 2006 to $104,000 for the three months ended March 31, 2007. Non-cash compensation (credit) expense of $(463,000) and $206,000 for the three months ended March 31, 2007 and 2006, respectively, was recorded to re-measure the fair value and to recognize the intrinsic value of Brightcap's convertible deferred compensation at March 31, 2007 and 2006, respectively, due, in part, to the decrease in the price of the Company's common stock from $5.75 to $3.90 per share for the three months ended March 31, 2007 compared to the increase from $4.00 to $4.75 per share

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in the three months ended March 31, 2006. With the Company's adoption of SFAS 123R during its fiscal year 2007, other non-cash compensation expense of $82,000 was recognized during the three months ended March 31, 2007 for options issued to research and development employees, while no similar

expense was recognized during the same period in the prior year. Salaries and related payroll tax expense for the three months ended March 31, 2007 and 2006 was $198,000 and $128,000, respectively. The increase in salaries and payroll taxes was due to the addition of two members to the management team in the three months ended March 31, 2007. Bonuses of $170,000 to research and development employees and a consultant were also recorded in the three months ended March 31, 2007.

Loss from Operations

As a result of the factors described above, the loss from operations for the three months ended March 31, 2007 and 2006 was $45,000 and $1,369,000, respectively.

Other Expense

Other expense for the three months ended March 31, 2007 and 2006 was $39,000 and $10,000, respectively. Interest expense during the three months ended March 31, 2007 was $44,000 compared to $21,000 for the same period in the prior year. The increase in interest expense is due to the 2006 Series A notes and higher interest on deferred compensation balances during the three months ended March 31, 2007.

Net Loss

As a result of the factors described above, the net loss for the three month period ended March 31, 2007 and 2006 was $84,000 and $1,379,000, respectively, a decrease of $1,295,000. The net loss per common share also decreased by $0.15 from $0.16 for the three months ended March 31, 2006 to $0.01 for the same period in 2007.

RESULTS OF OPERATIONS - NINE MONTHS ENDED MARCH 31, 2007 COMPARED TO NINE MONTHS ENDED MARCH 31, 2006

General and Administrative

General and administrative expenses were ($59,000) for the nine months ended March 31, 2007 versus $873,000 for the nine months ended March 31, 2006. The primary factor in the decrease in general and administrative expenses is a decrease in non-cash compensation expense of $1,181,000 relating to the President's convertible deferred compensation resulting from the adoption of SFAS 123(R) and the decrease in the price of the Company's common stock from $6.40 to $3.90 per share for the nine months ended March 31, 2007 compared to the increase from the $2.00 per share floor to $4.75 per share for the nine months ended March 31, 2006. During the nine months ended March 31, 2006, the Company recorded non-cash compensation of $514,000 to record the intrinsic value of the liability. During the nine months ended March 31, 2007, the Company adopted SFAS 123(R) which re-measured the convertible feature on the deferred compensation at fair value which resulted in a $667,000 credit to non-cash compensation expense. The remaining general and administrative expenses not relating to adjustments for the fair value and intrinsic value of the convertible deferred compensation are $608,000 and

$360,000 for the nine months ended March 31, 2007 and 2006, respectively. Rent expense was $107,000 higher for the nine month period ended March 31, 2007 due to the office lease in New York City which was entered into during the first quarter of fiscal year 2007. Accounting and tax services were higher for the nine months ended March 31, 2007 over the similar period in

the prior year by $126,000 due to work performed on the 2006 fiscal year end audit, the filing of the Company's Form 10-SB and Form 10QSB for the three and six months ended December 31, 2006, and the preparation of federal and state income tax returns for the Company for the 2002 through 2005 tax years. The Company also recorded non-cash compensation expense of $75,000 relating to options, due to the adoption of SFAS 123(R) during the nine months ended March 31, 2007, while during the same period in fiscal year 2006 no expense was required to be recorded.

Research and development expenses decreased from $2,681,000 for the nine months ended March 31, 2006 to $1,135,000 for the nine months ended March 31, 2007. The majority of the decrease was attributable to a credit to non-cash compensation expense of ($913,000) and $702,000 for the nine months ended March 31, 2007 and 2006, respectively, which were recorded to re-measure the fair value and recognize the intrinsic value of Brightcap's convertible deferred compensation at March 31, 2007 and 2006, respectively. The decrease, in large part, is due to the decrease in the price of the Company's common stock from $6.40 to $3.90 per share compared to the increase from the $2.00 per share floor to $4.75 for the nine months ended March 31, 2007 and 2006, respectively. Offsetting the decrease was other non-cash compensation expense of $367,000 recognized during the nine months ended March 31, 2007 for options issued to research and development employees. No similar expense was recognized during the same period in the prior year, as the Company adopted SFAS 123(R) as of July 1, 2007. Legal expenses related to research and development were $132,000 and $50,000 for the nine months ended March 31, 2007 and 2006, respectively, due to extensive patent work being performed during the nine months ended March 31, 2007. Salaries and related payroll taxes increased $118,000 for the nine months ended March 31, 2007 over the same period in the prior year due to the addition of two members to the management team, one in April 2006 and one in September 2006, and overall pay increases to employees.

Loss from operations

As a result of the factors described above, the loss from operations for the nine months ended March 31, 2007 decreased $2,478,000, from $3,554,000 to $1,076,000 for the nine months ended March 31, 2006 and 2007, respectively.

Other Expense

Other expense was $77,000 and $11,000 the nine months ended March 31, 2007 and 2006, respectively. Interest expense decreased from $113,000 to $105,000 for the nine month period ended March 31, 2006 and 2007, respectively, due to the absence of interest expense on the Dairy notes and the Series A, B and C notes which were converted during the six months ended December 31, 2005, which was offset by the interest on the 2006 Series A Promissory notes during the nine months ended March 31, 2007. Meanwhile interest income increased $18,000 during the nine months ended March 31, 2007 compared to the same period in the prior year due to higher average cash balances. During the nine months ended March 31, 2006, the Company had other income of approximately $91,000 from the settlement of debt with third party vendors.

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Cumulative Effect of Change in Accounting Principle

During the nine months ended March 31, 2007, the Company recorded the cumulative effect of a change in accounting principle of $731,000.

On July 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised), "Share-Based Payment" (SFAS 123(R)), which supersedes APB 25, using the modified prospective application. In accordance with SFAF 123(R), outstanding instruments previously classified as liabilities and measured at intrinsic values, are to be measured initially at fair value with differences to be recorded as a cumulative effect of a change in accounting principle. The Company recorded the cumulative effect of a change in accounting principle of $731,000 due to the calculation of the fair value of convertible deferred compensation owed Mark Smith and Brightcap as of July 1, 2006. The cumulative effect of change in accounting principle resulted in a net loss per common share of $0.08 for the nine months ended March 31, 2007.

Net Loss

As a result of the factors described above, the net loss was $1,884,000 and $3,565,000 for the nine months ended March 31, 2007 and 2006, respectively, representing a $0.21 decrease in the net loss per common share from $0.43 for the nine months ended March 31, 2006 to $0.22 for the same period in 2007.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2007, the Company had cash and cash equivalents equal to $843,264. During the nine months ended March 31, 2007, net cash used in operating activities was $1,303,367. As previously noted, the Company is currently not generating revenue and accordingly has not generated cash flows from operations. The Company does not anticipate generating sufficient revenues to offset operating and capital costs for a minimum of two to five years. While there are no assurances that the Company will be successful in its efforts to develop and construct its Projects and market its Systems, it is certain that the Company will require significant funding from external sources.

Investing Activities

During the nine months ended March 31, 2007 the Company used $78,623 of cash for investing activities to purchase property and equipment for the New York office. In addition, the Company used $171,945 of cash to secure a guarantee for the office lease obligation.

Financing Activities

During the nine months ended March 31, 2007, $545,000 and $700,000 of cash was provided by financing activities resulting from the sale of the 2006 Series A and 2007 Series A convertible promissory notes, respectively.

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As of March 31, 2007 the Company has significant debt obligations consisting primarily of mandatorily convertible notes - affiliates of $2,063,123, 2006 Series A convertible promissory notes - current of $727,243, 2007 Series A convertible promissory notes - affiliates of $986,521 and 2007 Series A convertible promissory notes of $700,000. The Company has entered into an 88-month operating lease for office space in New York, with an average monthly lease expense of $15,820.

Convertible Notes

Under the terms of a convertible deferred compensation agreement with our President that was exchanged for a promissory note and conversion agreement on April 4, 2006, sums accrued through March 31, 2006 accrue interest at 6% per annum and are convertible into the Company's common stock at the lower of the current market value at the time of conversion, or $2.00 per share. Through July 1, 2007, conversions may occur by mutual agreement between the Company and the President. The Company may convert the promissory note, in whole or part, at any date after July 1, 2007 and the convertible note owned by the President is mandatorily converted to common stock of the Company on July 1, 2009. Through June 30, 2006, the Company accounted for this employee stock-based compensation agreement under APB 25 and recorded the intrinsic value of the deferred compensation agreement at each reporting date. On July 1, 2006, the Company adopted the provisions of SFAS 123(R), which supersedes APB 25. In accordance with SFAS 123(R), outstanding instruments previously classified as liabilities and measured at intrinsic values, are to be measured initially at fair value with differences to be recorded as the cumulative effect of a change in accounting principle. The fair value of deferred compensation owed to Mark A. Smith on July 1, 2006 was $1,521,609, and the cumulative effect of the change in accounting principle of $308,870 was recorded. Fair value at July 1, 2006 was calculated using a Black-Scholes option pricing model with the following assumptions: a dividend yield of zero, a risk-free interest rate of 5.13%, volatility of 181%, a remaining contractual life of 3 years and a stock price of $6.40 per share. At March 31, 2007 the fair value of deferred compensation owed to Mark A. Smith was re-measured as $871,405 and resulted in a credit to earnings of $338,634 and $667,315 for the three and nine months ended March 31, 2007, respectively. Fair value at March 31, 2007 was calculated utilizing the following assumptions: a dividend yield of zero, a risk-free interest rate of 4.58%, volatility of 66%, a remaining contractual life of 2.25 years and a stock price of $3.90 per share. Sums accrued after April 1, 2006, ($150,000 through March 31, 2007), were converted as of March 31, 2007 into the Company's 2007 Series A convertible promissory notes. The President earns compensation of $150,000 annually. All these sums related to Mr. Smith's deferred compensation are net of $55,000 and $60,000 of deferred compensation that was converted to 50,000 and 30,000 shares of the Company's restricted common stock on December 31, 2004 and 2005, respectively.

On December 31, 2005, convertible deferred compensation payable to Brightcap for services provided to the Company by the former general manager of Bion Dairy between April 1, 2003 and September 30, 2005 was exchanged for a promissory note which note bears interest at 6% per annum and conversion agreement pursuant to which all sums accrued through September 30, 2005 are convertible into the Company's common stock at the lower of the current market value at the time of conversion or $2.00 per share. Through January 1, 2007 conversion may occur by mutual agreement between the Company and Brightcap. The Company may convert the promissory note, in whole or in part, at any date after January 1, 2007 and, on July 1, 2009, the promissory note

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is mandatorily convertible to common stock of the Company. Through June 30, 2006, the Company accounted for this employee stock-based compensation agreement under APB 25 and recorded the intrinsic value of the deferred compensation agreement at each reporting date. On July 1, 2006, the Company adopted the provisions of SFAS 123(R), which supersedes APB 25. The fair value of deferred compensation owed to Brightcap on July 1, 2006 was $2,081,475, and the cumulative effect of the change in accounting principle of $422,516 was recorded. Fair value at July 1, 2006 was calculated using a

Black-Scholes option pricing model with the following assumptions: a dividend yield of zero, a risk-free interest rate of 5.13%, volatility of 181%, a remaining contractual life of 3 years and a stock price of $6.40 per share. At March 31, 2007 the fair value of deferred compensation owed to Brightcap was re-measured as $1,191,717 and resulted in a credit to earnings of $463,110 and $913,023 for the three and nine months ended March 31, 2007, respectively. Fair value at March 31, 2007 was calculated utilizing the following assumptions: a dividend yield of zero, a risk-free interest rate of 4.58%, volatility of 66%, a remaining contractual life of 2.25 years and a stock price of $3.90 per share. Brightcap receives annual compensation of $300,000 for the full time consulting services of Dominic Bassani with payment deferred. Sums accrued after October 1, 2005 ($450,000 as of March 31, 2007) were converted into the Company's 2007 Series A convertible promissory notes as of March 31, 2007.

Deferred Compensation

Prior to March 31, 2003, the Company incurred management fees under various management agreements for management and consulting services. The fees totaled $607,629 including interest at 6%, as of March 31, 2007. It was agreed in March 2003 that payment would be made on March 31, 2007 by conversion of the deferred compensation into common stock of the Company at the higher of the average price of the Company's common stock during the ten trading days ending March 27, 2007 or $4.00 per share. The Company issued 151,908 shares of common stock on March 31, 2007 to satisfy its obligation.

Convertible Promissory Notes

2006 Series A Convertible Promissory Notes:

On September 13, 2006, the Company closed the offering of its 2006 Series A Convertible Promissory Notes (the "Notes"), by issuing Notes totaling $700,000. The holders of the Notes earn interest on the unpaid principal balance of the Notes at 6%, payable on May 31, 2008, the maturity date of the Notes. All of the principal and accrued interest under the Notes shall be converted into common shares of the Company at the conversion rate of one share for each $6.00 that is owed under the terms of the Notes if the following conditions are met:

A) The closing market price of the Company's shares has been at or above $7.20 per share for 10 consecutive trading days, and

B) The earliest of the following events:

1) An effective registration allowing public resale of the shares to be received by the Note holders upon conversion, or
2) One year after the initial closing date of the offering, and

3) No conversion without an effective registration statement shall take place until the Company has become a "reporting company" with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, which occurred on January 13, 2007.

The Notes may also be convertible, in whole or in part, into the Company's common shares at any time at the election of the Note holders at a conversion rate of $6.00 per share, which was above the approximate market price of the Company's common shares at the commitment date of the offering.

For the three and nine months ended March 31, 2007 the notes accrued interest of $10,489 and $27,243, respectively.

2007 Series A Convertible Promissory Notes:

On March 31, 2007, the Company sold $700,000 of its 2007 Series A Convertible Notes (the "2007 Notes"). In addition the Company issued 2007 Notes totaling $986,521 in exchange for promissory notes with convertible features, and deferred compensation. The 2007 Notes are convertible into shares of the Company's common stock at $4.00 per share until maturity on July 1, 2008, at the election of the 2007 Note holder, and will accrue interest at 6% per annum. The note holders will have the option to exchange the 2007 Notes, plus interest, into securities substantially identical to securities the Company sells in any subsequent offering of up to $3,000,000. The Company has the right to require the 2007 Notes (principal plus interest) be converted into its common shares at the lesser of $4.00 per share or the price of an offering in which the Company raises $3,000,000 or more. The conversion price of the 2007 Notes of $4.00 per share was above the approximate market price of the Company's common shares at the commitment date of the offering.

Plan of Operations and Outlook

As of March 31, 2007 the Company had cash and cash equivalents of $843,264. Based on our operating plan, management believes that existing cash on hand will be sufficient to fund the Company's basic overhead through the end of the 2007 calendar year. However, the Company will need to raise additional capital to execute our business plan discussed below.

The Company currently intends to seek financing of between $5,000,000 and $50,000,000 during 2007 in the form of equity and/or debt. The proceeds would be used to expand and accelerate the development activities of Bion's initial Integrated Projects and for general corporate purposes. If we do not receive sufficient funding on a timely basis, it could have a material adverse effect on our liquidity, financial condition and business prospects. Additionally, in the event that we receive funding, it may be on terms that are not favorable to the Company and its shareholders. There is no assurance that the Company will successfully complete any financings.

Currently, Bion is focused on using applications of its patented waste management technology to develop Integrated Projects which will include large CAFOs, such as large dairies, beef cattle feed lots and hog farms, with Bion waste treatment System modules processing the aggregate CAFO waste stream from the equivalent of 20,000 to 40,000 or more dairy cows (or the waste stream equivalent of other species) while producing solids to be utilized for renewable energy production and to be marketed as feed and/or fertilizer, integrated with an ethanol plant capable of producing 20 million to 40 (or more) million gallons of ethanol per year.

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In June 2006, the Company entered into an agreement with Fair Oaks Dairy Farm ("FODF") to construct a Bion facility ("Stage I System") at FODF. Bion has been working with FODF since May 2005 for the purpose of installing a waste treatment facility at FODF that could become the basis for a future Integrated Project. The June 2006 agreement contemplates expansion beyond the initial waste treatment facility. The Stage I System will initially be used for testing necessary for: a) finalization of design criteria for permitting and construction of, and b) optimization of renewable energy production and utilization for the full scale Integrated Projects. We are

currently in negotiations toward an amended agreement with FODF pursuant to which: a) the Company will construct a commercial scale Bion System designed to handle the waste stream from approximately 3500-6200 milking cows ("Initial System") at existing FODF facilities in Indiana which will incorporate and expand the scope of the Stage I System; and b) when the Initial System has completed start-up phase and demonstrated environmental results consistent with the published results achieved at Bion's Derives research facility, the Initial System will become the basis of expansion into an Integrated Project at FODF through development stages including dairy expansion, construction of additional Bion System modules including renewable energy production and solids processing facilities and construction of an ethanol plant. It is anticipated that the amended agreement will be executed during fiscal 2007. Preliminary engineering, design and site work at FODF has begun pursuant to the existing agreement and we anticipate completion of development of this Integrated Project during 2008-2009.

Bion is currently working with local, state and federal officials and with potential industry participants to evaluate sites in multiple states and anticipates selecting a site for its initial Project during the 2007. In addition, Bion intends to choose sites for additional Projects during 2007 and 2008 to create a pipeline of Projects. Management has a 5-year development target (through calendar year 2013) of approximately 12-25 Integrated Projects. At the end of the 5-year period, Bion projects that 8-16 of these Integrated Projects will be in full operation in 3-8 states, and the balance would be in various stages ranging from partial operation to early construction stage. No Integrated Project has been developed to date.

Bion is presently establishing its implementation management team with the intention of commencing development and construction of an initial Project during 2007. Bion will need to continue to hire additional management and technical personnel as it moves from the technology re-development phase to the implementation phase during the 2007 calendar year.

YEAR ENDED JUNE 30, 2006 COMPARED TO YEAR ENDED JUNE 30, 2005

General and Administrative

General and administrative expenses increased by $702,466 or 110% for the year ended June 30, 2006 compared to the prior year. The increase in general and administrative expenses is primarily due to an increase of non-cash compensation charges of approximately $834,000 to record the intrinsic value of the President's convertible deferred compensation as of June 30, 2006, and financial accounting and audit costs of $67,000 associated with the preparation of the December 31, 2005 balance sheet audit and the June 30, 2006 audit, which were not performed during the fiscal year ended June 30, 2005. The increases in general and administrative expenses were partially offset by lower legal fees during the fiscal year ended June 30, 2006 of approximately $218,000 due to decreased litigation expense and partial reimbursement of prior legal expenses.

Research and Development

Research and development expenses increased by $2,597,185 or 214% for the year ended June 30, 2006 compared to the prior year. The increase in research and development expenses was primarily due to increased consulting expenses and salaries and related payroll taxes. Consulting expenses increased due to the addition of several key consultants in order to further the development of the Company's second generation technology and integration

applications. Also during the year ended June 30, 2006, $790,000 in non-cash charges were recorded to recognize consulting expense related to the issuance and vesting of the Company's stock options to non-employees and $1,140,000 of non-cash charges were recorded to recognize the intrinsic value of Brightcap's convertible deferred compensation as of June 30, 2006 compared to $21,000 and $0, respectively, in fiscal 2005. Salaries and related payroll taxes increased during the year ended June 30, 2006 due to pay raises and a discretionary payment of bonuses to compensate certain employees for pay reductions in prior years.

Loss from Operations

As a result of the factors described above, the loss from operations for the year ended June 30, 2006 increased by $3,299,651 from the prior year of which $2,756,000 represented the increase in non-cash expenses.

Other Expense

Other expense decreased by $241,689 for the year ended June 30, 2006 compared to the prior year. The decrease in other expenses is primarily due to the decrease in interest expense of $155,408 and an increase in other income of $65,298. Interest expense decreased during the year ended June 30, 2006 due to the conversion of the interest bearing Bion Dairy notes and interest bearing notes held by the Company's president into the Company's common stock during September and December 2005, respectively. Other income increased during the year ended June 30, 2006 due to the settlement of creditor liabilities during the year.

Net Loss

As a result of the factors described above, the net loss increased by $3,057,962 for the year ended June 30, 2006 (an increased net loss of $0.20 per common share) compared to the prior year of which $2,756,000 represents the increase in non-cash items.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2006, the Company had cash and cash equivalents equal to $1,152,199. During the year ended June 30, 2006, net cash used in operating activities was $2,040,708, primarily consisting of cash operating expenses. As previously noted, the Company is currently not generating revenue and accordingly has not generated cash flows from operations. The Company does not anticipate generating sufficient revenues to offset operating and capital costs for a minimum of two to five years. While there are no assurances that the Company will be successful in its efforts to develop and construct its Projects and market its Systems, it is certain that the Company will require significant funding from external sources.

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Investing Activities

During the year ended June 30, 2006 the Company used $9,166 of cash for investing activities to purchase property and equipment.

Financing Activities

During the year ended June 30, 2006, $3,194,821 of cash was provided by financing activities primarily resulting from $1,870,821 received from the sale of convertible debt and $1,136,500 received from the sale of common

stock.

As of June 30, 2006 the Company has significant debt obligations consisting primarily of mandatorily convertible notes - affiliates ($2,871,698) and deferred compensation, of which $581,344 is mandatorily convertible.

Convertible Notes

Under the terms of a convertible deferred compensation agreement with our President that was exchanged for a promissory note and conversion agreement on April 4, 2006, sums accrued through March 31, 2006 accrue interest at 6% per annum and are convertible into the Company's common stock at the lower of the current market value at the time of conversion, or $2.00 per share. Through July 1, 2007, conversions may occur by mutual agreement between the Company and the President. The Company may convert the promissory note, in whole or part, at any date after July 1, 2007 and the convertible note owned by the President is mandatorily converted to common stock of the Company on July 1, 2009. The Company is accounting for this employee stock-based agreement under APB 25. At June 30, 2006, the note balance (principal and accrued interest) due to the President was $378,981, and the market price of the Company's common stock was $6.40 per share. Therefore the Company has recorded the intrinsic value of the deferred compensation agreement at $1,212,739 as of June 30, 2006. The President earns compensation of $150,000 annually, all of which has been deferred from April 1, 2006 ($37,500 as of June 30, 2006) on a non-convertible and non-interest bearing basis. All these sums related to Mr. Smith's deferred compensation are net of $55,000 and $60,000 of deferred compensation that was converted to 50,000 and 30,000 shares of the Company's restricted common stock on December 31, 2004 and 2005, respectively.

On December 31, 2005, convertible deferred compensation payable to Brightcap for services provided to the Company by the former general manager of Bion Dairy between April 1, 2003 and September 30, 2005 was exchanged for a promissory note which note bears interest at 6% per annum and conversion agreement pursuant to which all sums accrued through September 30, 2005 are convertible into the Company's common stock at the lower of the current market value at the time of conversion or $2.00 per share. Through January 1, 2007 conversion may occur by mutual agreement between the Company and Brightcap. The Company may convert the promissory note, in whole or in part, at any date after January 1, 2007 and, on July 1, 2009, the promissory note is mandatorily convertible to common stock of the Company. At June 30, 2006, the note balance (principal and accrued interest) due Brightcap was $518,425 and the market price of the Company's common stock was $6.40 per share. Therefore the Company has recorded the intrinsic value of the deferred compensation agreement at $1,658,959. Brightcap receives annual compensation