BONAL INTERNATIONAL INC

2015 Annual Report

Sample Applications



Mission

To advance the metalworking industry through the use of Bonal's patented Meta-Lax technology.

Ultimate Benefit

Peace of mind in matching or improving the quality of what was previously used.

2015 Annual Report

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BONAL INTERNATIONAL, INC.

Bonal International, Inc. (traded under the symbol "**BONL**"), through its wholly-owned subsidiary Bonal Technologies, Inc., is the world's leading provider of sub-harmonic vibratory metal stress relief technology and the manufacturer of Meta-Lax stress relieving, Black Magic Distortion Control and Pulse Puddle Arc Welding equipment. Headquartered in Royal Oak, Michigan, Bonal also provides a complete variety of consulting, training, program design and metal stress relief services to several industries including: automotive, aerospace, shipbuilding, machine tool, plastic molding and die casting, to mention a few. Bonal's patented products and services are sold throughout the U.S. and in over 60 foreign countries.

FINANCIAL HIGHLIGHTS

Year Ending March 31	2015	2014	2013
Total Revenues	$2,360,696	$2,051,905	$2,471,315
Net Earnings	443,162	132,927	220,182
Total Assets	1,944,824	1,682,348	1,808,589
Working Capital	1,506,594	1,304,629	1,350,086
Earnings per Share	0.25	0.08	0.13
Stockholders' Equity	1,529,280	1,348,306	1,390,171
Trading Activity Hi / Low	2.18 / 1.31	2.71 / 1.55	10.01 / 1.00
Dividend Declared per Share	0.15	0.10	0.30
Dividend Paid per Share	0.20	0.05	0.30

Fiscal 2015 Quarters Ended

(unaudited)

	June 30	Sept 30	Dec 31	March 31, 2015
Total Revenues	618,144	434,857	505,519	802,176
Gross Profits	479,386	326,603	392,260	607,898
Net Earnings	110,054	28,190	158,475	146,443

Fiscal 2014 Quarters Ended

(unaudited)

	June 30	Sept 30	Dec 31	March 31, 2014
Total Revenues	519,077	581,325	436,626	514,877
Gross Profits	376,720	445,061	314,563	375,039
Net Earnings	54,544	114,148	(22,435)	(13,330)

Sales Breakdown for Fiscal Year 2015

Equipment Sales	Rental Income	Contract Services
$1,926,600	$295,370	$138,726

March 31, 2015
Dear Shareholders,

The fiscal year that ended March 31, 2015 was financially strong as well as a year for technological evolution at Bonal International, Inc.

Financially, Bonal posted a 15.0 percent gain in net revenue of $2,360,696 compared to last year's net revenue of $2,051,905. Net income more than tripled to $443,162 from last year's net income of $132,927, making this Bonal's third best and eleventh consecutive profitable year. Stockholders' equity grew 13.4 percent to $1,529,280 from last year's $1,348,306. We finished the fiscal year extremely strong by posting fourth quarter net revenue of $802,176, the second highest quarter ever for Bonal. Further, during the year for the first time Bonal paid four dividends.

Milestones in FY 2015:
- Record number of dividends paid
- 15% increase in net revenue
- 13% increase in stockholders' equity
- 3rd best year in net income
- 10th consecutive year dividends paid
- 11th consecutive profitable year

Taking advantage of this financial strength, Bonal invested in key areas toward the continued success of Meta-Lax technology and Bonal's stakeholders.

Bonal's unique contribution to the metalworking industry lies with our Meta-Lax® stress relief technology and products, which are promoted through Bonal Technologies, Inc., our wholly owned subsidiary. Meta-Lax stress relief is the high-tech alternative to the traditional "heat treat" method for relieving thermal stress in metal. Bonal's patented sub-harmonic vibration approach to stress relief incorporates the ability to certify that the work piece has reached a stress relieved state, an industry exclusive. Meta-Lax continues to achieve the same effectiveness and consistency as heat treat stress relief yet without the expense, time delays, huge energy consumption, and the many other negative side effects that are common with the heat treat method.

In FY 2015 Bonal invested in the redevelopment of our flagship computerized Meta-Lax model. This new, state-of-the-art, fully automatic computerized unit, Model 2800, is near completion and expected to premiere in the fall of 2015. Model 2800 will feature touch-screen operation, massive data storage capacity for customers and work pieces, and onboard videos.

Letter from the Chairman

Keeping with Bonal's profitable trend, FY 2015 provided the Company with the opportunity to pay the ultimate owners of the Company, our shareholders. During FY 2015, Bonal declared three dividends and paid four dividends, each for $0.05 per share. One dividend was approved towards the end of the previous fiscal year and paid for in this year. FY 2015 marked the tenth consecutive year that Bonal issued dividends.

About 80 percent of this year's revenue was generated by equipment sales. Sales in the United States accounted for 77 percent of revenue by volume. Bonal did business in 13 foreign countries. Canada was our largest source of foreign revenue.

Bonal's customer base continued to demonstrate strong and loyal support for our products with customer reorders and referrals accounting for 42 percent of our revenue by volume. This year the most revenue for Meta-Lax equipment was generated from the aerospace, automotive, mining, and mold making industries.

In the coming year we expect to expand our local and domestic on-site stress relief services using a concept of "Mobile Lab."

When we look back at fiscal year 2015, there are ample reasons to be excited about the future. With our loyal customer base as an anchor, a new computerized Meta-Lax system on the horizon, and new opportunities ahead, the future of Bonal International looks bright.

On behalf of the board of directors, I thank you for your continued support.

Sincerely,



Thomas E. Hebel
Chairman

GH·D
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Independent Auditor's Report

Board of Directors and Stockholders
Bonal International, Inc. and Subsidiary

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Bonal International, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheet as of March 31, 2015, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the 2015 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bonal International, Inc. and Subsidiary as of March 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Consolidated Financial Statements
The consolidated financial statements of Bonal International, Inc. and Subsidiary as of March 31, 2014, and for the years ended March 31, 2014 and 2013 were audited by other auditors whose report dated June 27, 2014, expressed an unmodified opinion on those statements.

Godfrey Hammel, Danneels & Company, P.C.

St. Clair Shores, Michigan
July 27, 2015

INDEPENDENT MEMBER OF
BKR INTERNATIONAL

Consolidated Balance Sheets

Assets

	March 31, 2015	March 31, 2014
Current Assets		
Cash and cash equivalents	$ 1,030,789	$ 1,017,253
Accounts receivable-trade, net	321,750	91,569
Inventories, net	445,957	397,678
Prepaid expenses and other current assets:		
Prepaid expenses	34,431	19,251
Refundable taxes	24,000	28,253
Deferred tax asset (Note 3)	32,400	41,700
Other current assets	22,611	34,967
Total current assets	1,911,938	1,630,671
Property and Equipment - Net (Note 2)	32,886	26,914
Other Assets		
Cash surrender value of life insurance	-	24,763
Total assets	**$ 1,944,824**	**$ 1,682,348**

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

Consolidated Balance Sheets

Liabilities and Stockholders' Equity

	March 31, 2015	March 31, 2014
Current Liabilities		
Accounts payable	$ 78,489	$ 43,326
Accrued and other current liabilities:		
Accrued compensation	152,033	115,636
Customer deposits and advances	18,800	29,230
Accrued income tax	90,500	-
Other accrued liabilities	65,522	19,923
Dividends payable	-	87,396
Deferred compensation	-	30,531
Total current liabilities	405,344	326,042
Other Long-Term Liabilities		
Deferred tax liability	10,200	8,000
Stockholders' Equity (Note 6)	1,529,280	1,348,306
Total liabilities and stockholders' equity	**$ 1,944,824**	**$ 1,682,348**

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

Consolidated Statements of Operations

	Year Ended March 31		
	2015	**2014**	**2013**
Net Sales	$ 2,360,696	$ 2,051,905	$ 2,471,315
Cost of Sales	554,549	540,522	574,388
Gross Profit	1,806,147	1,511,383	1,896,927
General and Administrative Expenses	1,338,211	1,321,726	1,587,628
Operating Income	467,936	189,657	309,299
Nonoperating Income			
Interest income	1,350	822	4,752
Other income	100,966	3,848	6,131
Total nonoperating income	102,316	4,670	10,883
Income - Before income taxes	570,252	194,327	320,182
Income Tax Expense	127,090	61,400	100,000
Net Income	**$ 443,162**	**$ 132,927**	**$ 220,182**
Per-Share Data - Net Income	$ 0.25	$ 0.08	$ 0.13
Weighted Average Number of Shares Used in per Share Computation	1,747,922	1,747,922	1,747,922

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

Bonal International, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance - April 1, 2012	**8,740**	-	**688,212**	**997,414**	**1,694,366**
Net Income	-	-	-	220,182	220,182
Dividends ($0.30 per share)	-	-	-	(524,377)	(524,377)
Balance - March 31, 2013	**8,740**	-	**688,212**	**693,219**	**1,390,171**
Net Income	-	-	-	132,927	132,927
Dividends ($0.10 per share)	-	-	-	(174,792)	(174,792)
Balance - March 31, 2014	**8,740**	$ -	**688,212**	**651,354**	**1,348,306**
Net Income	-	-	-	443,162	443,162
Dividends ($0.15 per share)	-	-	-	(262,188)	(262,188)
Balance - March 31, 2015	**$ 8,740**	-	**$ 688,212**	**$ 832,328**	**$1,529,280**

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

Consolidated Statements of Cash Flows

	Year Ended March 31		
	2015	2014	2013
Cash Flows from Operating Activities			
Net income	$ 443,162	$ 132,927	$ 220,182
Adjustments to reconcile net income to net cash by operating activities:			
Depreciation and amortization	14,119	16,903	16,505
Bad debt expense	-	565	1,666
Change in cash surrender value of life insurance	24,763	(3,237)	(3,512)
Deferred income taxes	11,500	10,300	6,200
Net change in:			
Accounts receivable	(230,181)	82,779	(59,264)
Inventories	(48,279)	51,773	19,047
Prepaid expenses and other	1,429	3,290	(90)
Accounts payable	35,163	(66,359)	81,549
Accrued liabilities and other	162,066	(83,413)	11,464
Deferred compensation	(30,531)	(30,000)	(30,000)
Net cash provided by operating activities	383,211	115,528	263,747
Cash Flows from Investing Activities			
Purchase of property and equipment	(20,091)	(2,227)	(38,576)
Proceeds from sales and maturities of investments - Net of Purchases	-	-	894,998
Net cash (used in) provided by investing activities	(20,091)	(2,227)	856,422
Cash Flows used in Financing Activities			
Dividends paid	(349,584)	(87,396)	(524,377)
Net Increase in Cash and Cash Equivalents	13,536	25,905	595,792
Cash and Cash Equivalents - Beginning of year	1,017,253	991,348	395,556
Cash and Cash Equivalents - End of year	**$1,030,789**	**$1,017,253**	**$ 991,348**
Supplemental Cash Flows Information -			
Cash paid for income taxes	**$ 20,837**	**$ 103,520**	**$ 108,510**

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

Note 1 - Nature of Business and Summary of Significant Financial Accounting Policies

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of Bonal International, Inc. and its wholly owned subsidiary, Bonal Technologies, Inc. (collectively, the "Company"). All material intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Nature of Business – Bonal Technologies, Inc. performs design, development, manufacturing, and marketing of metal stress-relieving equipment internationally.

Basis of Accounting – The Company maintains its books on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Concentrations of Credit Risk – The Company primarily deposits cash with a national bank and at times throughout the year may maintain balances that exceed federally insured limits of $250,000, per depositor per insured bank. The total uninsured balance at March 31, 2015 is approximately $790,000. The Company has not experienced any losses in such accounts, and management believes the Company is not exposed to any unusual credit risk on cash and cash equivalents.

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting year. Actual results could differ from those estimates.

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

Trade and Accounts Receivable – The Company values its accounts receivable at invoice amounts. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management assesses the collectability of the accounts receivable balance and estimates the portion, if any, of the balance that will not be collected. Uncollectible amounts are written off as a charge against the valuation allowance in the period that such determination is made. The allowance for doubtful accounts as of March 31, 2015 and 2014 was $487.

Inventories – Inventories consist primarily of work in progress and are stated at the lower of cost, determined on the first-in, first-out (FIFO) method, or market. A valuation allowance is provided for obsolete and slow moving inventory to write down costs to net realizable value (market). The Company has recorded an obsolescence reserve of $65,000 at both March 31, 2015 and 2014.

Note 1 - Nature of Business and Summary of Significant Financial Accounting Policies - (Continued)

Property and Equipment – Property and equipment are recorded at cost. Depreciation and amortization are computed over the estimated useful lives of the related assets which range from 3-10 years, using accelerated methods for financial statement purposes. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. The cost and related accumulated depreciation of assets sold or otherwise disposed of during the year are removed from the accounts. Any gain or loss is reflected in the year of the disposal.

Management reviews these assets for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. The Company noted no impairment as of March 31, 2015, 2014 and 2013.

Revenue Recognition – The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability of the selling price is reasonably assured.

Income Taxes – A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

As of March 31, 2015 and 2014, the Company's unrecognized tax benefits were not significant. There were no significant penalties or interest recognized during the year or accrued at year end.

Management has analyzed the Company's material tax positions as of April 1, 2013 and as of March 31, 2015 and 2014 and has determined that no material uncertain tax positions exist that require recognition or disclosure in the accompanying consolidated financial statements.

None of the Company's income tax returns are currently under examination by the Internal Revenue Service ("IRS") or state authorities. However, fiscal years 2012 and later remain available for examination by the IRS and respective states.

Advertising – Advertising costs are expensed as incurred.

Earnings per Common Share – Earnings per common share are based on the number of common shares outstanding at the end of the year.

Reclassification – Certain items in the prior years consolidated financial statements have been reclassified to conform to the presentation in the current year consolidated financial statements.

Note 2 - Property and Equipment

Major classes of property and equipment are summarized as follows:

	2015	2014
Machinery and equipment	$ 58,427	$ 58,427
Displays	28,634	28,634
Transportation equipment	25,675	25,675
Office furniture and equipment	265,270	245,179
Leasehold improvements	5,367	5,367
Total cost	**383,373**	**363,282**
Accumulated depreciation and amortization	(350,487)	(336,368)
Property and equipment - Net	**$ 32,886**	**$ 26,914**

Depreciation and amortization expense was $14,119, $16,903, and $16,505 for the years ended March 31, 2015, 2014, and 2013, respectively.

Note 3 - Income Taxes

The provision for income taxes consists of the following:

	2015	2014	2013
Current expense	$ 115,590	$ 51,100	$ 93,800
Deferred expense	11,500	10,300	6,200
Net income tax expense	$ 127,090	$ 61,400	$ 100,000

A reconciliation of the provision for income taxes to income taxes computed by applying the statutory United States federal tax rate to income before taxes is as follows:

	2015	2014	2013
Income tax expense - Computed at 34 percent of pretax income	$ 193,900	$ 66,000	$ 109,000
State income taxes	3,630	-	-
Effect of nondeductible expense	1,700	1,900	2,500
Effect of nontaxable income	(34,000)	-	-
Effect of tax credits	(38,000)	-	-
Effect of adjustment of prior year estimates and other	(140)	(6,500)	(11,500)
Net income tax expense	$ 127,090	$ 61,400	$ 100,000

Note 3 - Income Taxes - (Continued)

Deferred tax assets result primarily from differences in the year of deductibility of certain expenses. Deferred tax liabilities result from different methods used for depreciation and amortization for financial reporting and income tax purposes. The net deferred tax asset totaled $22,200 and $33,700 as of March 31, 2015 and 2014, respectively. The Company had no valuation allowance on its deferred tax asset in either year.

Note 4 - Lease Commitments

The Company leases office and manufacturing space under an operating lease agreement requiring monthly lease payments of $5,623 through September 30, 2015. In addition the Company is responsible for certain occupancy expenses including utilities and insurance. Rent expense totaled $67,474, for each of the three years ended March 31, 2015, 2014 and 2013.

Note 5 - Deferred Compensation

The Company had an employment and deferred compensation agreement with the Company's former president. The deferred compensation was fully expensed as of the fiscal year ended March 31, 2010. Cash payments under this agreement totaled $30,000 for each of the three years ended March 31, 2015, 2014 and 2013. As of March 31, 2015, the financial terms of this agreement have been completely satisfied.

Note 6 - Stockholders' Equity

The Company's stock at March 31, 2015 and 2014 consists of the following:

- Class A common, voting stock, 5,000,000 authorized shares, with $.005 par value. A total of 1,747,922 shares were issued and outstanding at March 31, 2015 and 2014.

- Class B common, nonvoting stock, 5,000,000 authorized shares, with $.01 par value. There were no shares issued or outstanding at March 31, 2015 and 2014.

- Preferred stock, 200,000 authorized shares, with $.01 par value.
  There were no shares issued and outstanding at March 31, 2015 and 2014.

Note 7 - Employee Benefit Plan

The Company sponsors a 401(k) plan that provides retirement benefits for its employees according to the provisions of the plan document. The Company contributed $13,323 to the plan for the year ended March 31, 2015. There were no contributions made by the Company during fiscal years 2014 and 2013.

Note 8 - Insurance Proceeds

During the year ended March 31, 2015, the Company received proceeds from a key-man life insurance policy it held on its former president and chairman, A. George Hebel, III. The amount received, $100,237, was posted as miscellaneous income. This was non-taxable income.

Note 9 – Transaction Costs

During the year ended March 31, 2013, the Company incurred costs related to a potential sale of the outstanding stock of the Company to a third-party buyer of approximately $290,000, including a breakup fee of $100,000 paid to the potential buyer. These costs are included in fiscal 2013 general and administrative expenses in the Consolidated Statements of Operations.

Note 10 – Cash Flows

Noncash financing activities includes a $0.05 per share dividend declared on March 31, 2014 to stockholders of record on April 10, 2014. The Company paid the dividend to stockholders on April 17, 2014.

Note 11 – Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to March 31, 2015, the most recent Consolidated Balance Sheet presented herein, through July 27, 2015, the date the consolidated financial statements were available to be issued. No such significant events or transactions have been identified.

The Letter from the Chairman within this report contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: "goal," "believe," "focus" and "will" and similar references to future periods. Forward-looking statements are based on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include economic and industry conditions, actions of competitors, commodity and labor costs, and other factors. Any forward-looking statement made by us in said letter is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any such statements, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

Trading Symbol: BONL
CUSIP Number: 097-770-200

Directors and Officers

① **Thomas E. Hebel**
Chairman, President and CEO

① **Paul Y. Hebel**
Director and Vice Chairman

②③ **Harold Y. Hebel, C.P.A.**
Director and Treasurer

John A. Hebel
Director and Secretary

①② **George Harrison**
③ Director

Betty Jean Hebel, Ph.D.
Director

① Executive Committee
② Audit Committee
③ Compensation Committee

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