



2012

**Fiscal Year
3rd Quarter Ending
December 31, 2011**

Bonal International, Inc. 1300 North Campbell Road • Royal Oak, Michigan, 48067

1-800-Metal-29 • Tel: (248) 582-0900 • Fax: (248) 582-0901 • www.bonal.com

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Bonal International, Inc. and Subsidiary

Consolidated Balance Sheet

(Unaudited)

Assets	Nine Months Ending December 31, 2011	2010
Current Assets		
Cash and cash equivalents	\$ 163,508	\$ 179,022
Investments	894,707	962,558
Accounts receivable	150,885	115,266
Taxes Receivable	-	4,486
Inventory	471,472	451,611
Prepaid expenses and other current assets:		
Prepaid expenses	35,229	24,013
Deferred tax recovery (Note 4)	33,000	12,000
Other current assets	30,110	19,072
Total current assets	<u>1,778,911</u>	<u>1,768,028</u>
Property and Equipment - Net (Note 2)	22,167	20,210
Other Assets		
Deferred tax recovery (Note 4)	34,000	30,200
Cash surrender value of life insurance	15,369	12,779
Total assets	<u>\$ 1,850,447</u>	<u>\$ 1,831,217</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 30,226	\$ 23,619
Accrued and other current liabilities:		
Taxes payable	1,061	131,712
Deferred compensation (Note 6)	30,000	31,200
Accrued compensation	36,825	43,792
Customer deposits and advances	23,960	32,747
Other accrued liabilities	22,131	27,508
Total current liabilities	<u>144,203</u>	<u>290,578</u>
Other Long-Term Liabilities		
Deferred compensation (Note 6)	68,031	96,831
Stockholders' Equity (Note 7)	<u>1,638,213</u>	<u>1,443,808</u>
Total liabilities and stockholders' equity	<u>\$ 1,850,447</u>	<u>\$ 1,831,217</u>

See Notes to Consolidated Financial Statements

Bonal International, Inc. and Subsidiary

Consolidated Statement of Operations

(Unaudited)

	Third Quarter Ended December 31,		Nine Months Ending December 31,	
	2011	2010	2011	2010
Net Sales	\$ 405,533	\$ 619,500	\$ 1,648,570	\$ 1,692,172
Cost of Sales	112,451	144,692	395,205	390,422
Gross Profit	293,082	474,808	1,253,365	1,301,750
General and Administrative Expenses	285,543	318,660	869,290	830,316
Operating Income	7,539	156,148	384,075	471,434
Nonoperating Income (Expenses)				
Interest income	706	958	2,306	3,560
Other income (expense)	2,798	(251)	3,816	16,679
Total nonoperating income	3,504	707	6,122	20,239
Income - Before income taxes	11,043	156,855	390,197	491,673
Income Tax Expense (Estimated)	3,000	47,000	117,000	147,000
Net Income	<u>\$ 8,043</u>	<u>\$ 109,855</u>	<u>\$ 273,197</u>	<u>\$ 344,673</u>
Per-Share Data - Net income	\$ 0.00	\$ 0.06	\$ 0.16	\$ 0.20
Average Number of Shares Used in per Share Computation	1,747,922	1,747,922	1,747,922	1,747,922

See Notes to Consolidated Financial Statements

Bonal International, Inc. and Subsidiary

Consolidated Statement of Stockholders' Equity

(Unaudited)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance - March 31, 2008	\$ 8,310	\$ -	\$ 602,642	\$ 857,512	\$ 1,468,464
Net Income	-	-	-	30,109	30,109
Dividends Paid (\$0.10 per share)	-	-	-	(174,792)	(174,792)
Stock Issuance	430	-	85,570	-	86,000
Balance - March 31, 2009	8,740	-	688,212	712,829	1,409,781
Net Income	-	-	-	3,978	3,978
Dividends Paid (\$0.05 per share)	-	-	-	(87,396)	(87,396)
Balance - March 31, 2010	8,740	-	688,212	629,411	1,326,363
Net Income	-	-	-	510,590	510,590
Dividends Paid (\$0.13 per share)	-	-	-	(227,230)	(227,230)
Balance - March 31, 2011	8,740	-	688,212	912,771	\$ 1,609,723
Net Income (Year to Date December 31, 2011)	-	-	-	273,197	273,197
Dividends Paid (\$0.14 per share)	-	-	-	(244,707)	(244,707)
Balance - December 31, 2011	\$ 8,740	\$ -	\$ 688,212	\$ 941,261	\$ 1,638,213

See Notes to Consolidated Financial Statements

Bonal International, Inc. and Subsidiary

Consolidated Statement of Cash Flows (Unaudited)

	Nine Months Ending December 31,	
	2011	2010
Cash Flows from Operating Activities		
Net income	\$ 273,197	\$ 344,673
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	5,662	9,026
Deferred compensation expense	(22,500)	(21,969)
Net change in:		
Accounts receivable	49,278	30,840
Inventory	(1,321)	16,734
Prepaid expenses and other	(14,264)	(135)
Accounts payable	(33,044)	(26,270)
Accrued liabilities and other	(351,408)	145,931
	<u>(94,400)</u>	<u>498,830</u>
Net cash (used in) provided by operating activities		
	(94,400)	498,830
Cash Flows from Investing Activities		
Purchase of property and equipment	(5,038)	(3,428)
Sale (Purchase) of investments	67,937	(346,458)
	<u>62,899</u>	<u>(349,886)</u>
Net cash provided by (used in) investing activities		
	62,899	(349,886)
Cash Flows from Financing Activities		
Dividends paid	(244,707)	(227,230)
	<u>(244,707)</u>	<u>(227,230)</u>
Net cash used in financing activities		
	(244,707)	(227,230)
Net Decrease in Cash and Cash Equivalents	(276,208)	(78,286)
Cash and Cash Equivalents - Beginning of year	<u>439,716</u>	<u>257,308</u>
Cash and Cash Equivalents - End of period	<u><u>\$ 163,508</u></u>	<u><u>\$ 179,022</u></u>

See Notes to Consolidated Financial Statements

Bonal International, Inc. and Subsidiary

Notes to Consolidated Financial Statements
(Unaudited)
December 31, 2011 and 2010

Note I – Nature of Business and Significant Financial Accounting Policies

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

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

Investments – Investments consist of certificates of deposit with an original maturity in excess of three months.

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 estimated 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 in the period that such determination is made. The allowance for doubtful accounts was \$623 for December 31, 2011 and 2010.

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.

Property and Equipment – Property and equipment are stated at cost. Depreciation and amortization are computed over the estimated useful lives of the assets, using accelerated methods for financial purposes.

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

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.

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

Bonal International, Inc. and Subsidiary

Notes to Consolidated Financial Statements
(Unaudited)
December 31, 2011 and 2010

Note I – Nature of Business and Significant Financial Accounting Policies – (Continued)

Accounting for Uncertainty in Income Taxes - As of March 31, 2011 and 2010, 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.

The Company files income tax returns in U.S. federal jurisdiction. With few exceptions, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for fiscal years before 2008.

Note 2 – Property and Equipment

Major classes of property and equipment are as follows:

	<u>2011</u>	<u>2010</u>
Machinery and equipment	\$ 57,637	56,952
Displays	27,931	19,884
Transportation equipment	25,675	25,675
Office furniture and equipment	248,402	244,768
Leasehold improvements	<u>5,367</u>	<u>5,367</u>
Total cost	365,012	352,646
Accumulated depreciation	<u>(342,845)</u>	<u>(332,436)</u>
Net property and equipment	<u>\$ 22,167</u>	<u>20,210</u>

Depreciation expense was \$5,662 and \$9,026 for the nine months ended December 31, 2011, and 2010 respectively.

Note 3 – Line of Credit

The Company has a line of credit with a bank under which the Company has available borrowings of \$100,000, bearing interest at 1 percent above the bank's prime rate. The demand note is collateralized by substantially all assets of the Company. There was no amount outstanding at December 31, 2011 or 2010.

Bonal International, Inc. and Subsidiary

Notes to Consolidated Financial Statements
(Unaudited)
December 31, 2011 and 2010

Note 4 – Income Taxes

The provision for income taxes consists of the following:

	<u>2011</u>	<u>2010</u>
Current expense	\$ 117,000	\$ 147,000
Net income tax expense	<u>\$ 117,000</u>	<u>\$ 147,000</u>

Deferred tax assets result primarily from differences in the period of deductibility of certain expenses. The deferred tax asset totaled \$67,000 and \$42,200 as of December 31, 2011 and 2010, respectively.

Note 5 – Lease Commitments

The Company leases office and manufacturing space under an operating lease agreement through September 30, 2012.

Rent expense for all leased property totaled \$50,605 and \$50,605 for the period ended December 31, 2011 and 2010 respectively.

Note 6 – Deferred Compensation

During fiscal year 2008 the Company entered into an employment and deferred compensation agreement with the Company's president. The employment agreement covers the two-year period beginning April 1, 2008 through March 31, 2010 with provisions for renewal on a year-to-year basis and for early retirement. Additionally, the contract includes a provision for payments of approximately \$30,000 per year for a non-compete over a five-year period subsequent to the officer's retirement. The cost of the deferred compensation was expensed over the two year term of the employment agreement. The deferred compensation was fully expensed as of the fiscal year ended March 31, 2010 and cash payments to the former president commenced April 1, 2010. Cash payments have totaled \$51,969 through December 31, 2011 with \$22,500 being disbursed during the nine months ending December 31, 2011.

Note 7 – Stockholders' Equity

The Company's stock at December 31, 2011 and 2010 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 December 31, 2011 and 2010.
- Class B common, nonvoting stock, 5,000,000 authorized shares, with \$.01 par value. There were no shares issued or outstanding at December 31, 2011 and 2010.
- Preferred stock, 200,000 authorized shares, with \$.01 par value. There were no shares issued and outstanding at December 31, 2011 and 2010.

Bonal International, Inc. and Subsidiary

Notes to Consolidated Financial Statements
(Unaudited)
December 31, 2011 and 2010

Note 8 – 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 made no contributions to the plan for the nine months ending December 31, 2011 or December 31, 2010.

Note 9 – Stock Options

During 1998, the Company entered into a stock option agreement for its directors. The agreement granted directors the option to purchase a total of 280,000 shares of previously authorized but unissued Class A common stock for \$1 per share at any time prior to June 25, 2008. During 2008, 86,000 of these options were exercised. All other outstanding stock options issued by the Company expired without exercise on June 25, 2008.

Stock-based Compensation - The Company has elected to follow accounting guidance for its employee stock options issued prior to April 1, 2006 that requires compensation expense to be measured as the excess of the market price of the underlying stock over the exercise price on the date of the grant, if any.

Pro forma information regarding net earnings and earnings per share is required. However, since the stock options issued would have an antidilutive effect on earnings per share, the required pro forma information has been omitted. The impact of using the fair value approach of accounting for the stock options on earnings per share and net income is nominal.

In December 2004, there was a revision to the accounting guidance provided by the Financial Accounting Standards Board (FASB) for stock options. This guidance requires the Company to measure the cost of employee services received in exchange for equity awards, including stock options, based on the grant date at fair value of the awards. The cost will be recognized as compensation expense over the vesting period of the awards. The Company adopted the revised guidance beginning April 1, 2006. The standard provides for a prospective application. Under this method, the Company will begin recognizing compensation cost for equity-based compensation for all new or modified grants after the date of adoption. In addition, the Company will recognize the unvested portion of the grant date fair value of awards issued prior to adoption based on the fair values previously calculated for disclosure purposes. The Company has not issued any new stock options or modified any existing stock options subsequent to April 1, 2006.

Note 10 - Fair Values of Financial Instruments

A summary of the methods and significant assumptions used to estimate the fair values of financial instruments is as follows:

Short-term Financial Instruments – The fair values of short-term financial instruments, including cash and cash equivalents, certificates of deposits, trade accounts receivable and payable, and accrued liabilities approximate the carrying amounts in the accompanying consolidated financial statements due to the short maturity of such instruments.