

2007

Annual Report

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Bonal International, Inc. and Subsidiary

Bonal International, Inc. (traded under the symbol "BONL"), through its wholly-owned subsidiary Bonal Technologies, is the world's leading provider of sub-harmonic vibratory metal stress relief technology and 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 49 foreign countries.

FINANCIAL HIGHLIGHTS

	2007	2006	2005
Total Revenues	\$2,031,598	\$1,982,071	\$1,511,431
Net Earnings	340,653	251,058	239,787
Total Assets	1,362,238	1,074,561	861,553
Working Capital	1,041,710	774,709	616,901
Long-Term Liabilities	18,090	24,265	29,959
Earnings Per Share	.21	.15	.14
Shareholder's Equity	1,061,631	798,024	623,462

QUARTERLY FINANCIAL INFORMATION (unaudited)

Fiscal 2007 Quarters Ended

	JUNE 30	SEPT 30	DEC 31	MAR 31, 2007
Total Revenues	\$433,518	\$568,816	\$421,339	\$607,925
Gross Profit	338,484	465,800	311,845	455,714
Net Earnings	68,777	168,448	38,124	65,304

Fiscal 2006 Quarters Ended

	JUNE 30	SEPT 30	DEC 31	MAR 31, 2006
Total Revenues	\$455,151	\$462,884	\$528,138	\$535,898
Gross Profit	342,517	335,358	393,718	384,830
Net Earnings	66,716	85,275	81,910	17,157

Sales Breakdown for Fiscal Year 2007

Equipment Sales
\$1,752,870

Rental Income
\$199,244

Contract Services
\$79,484

March 31, 2007

Dear Shareholders,

Bonal International Inc. continues with strong momentum for the third consecutive year, posting its strongest results in the 23-year history of the company.

I am pleased to report that in 2007, Bonal reached an all time high in net sales, which were up 2.5 percent. In addition, Bonal increased its gross profit, operating income and net income significantly more than its increase in sales.

As the world's leading provider of sub-harmonic vibration technology for metal improvement solutions, Bonal's goal is to help companies stay competitive by reducing operating and energy costs. Bonal's technology helps a variety of industries including aerospace, armament, automotive die casting, engine building, machine tool, mining, petroleum, plastic molding, racing, ship building and welding.

Bonal's patented Meta-Lax technology helps companies reduce energy consumption by 98 percent compared to natural-gas-fired heat treatment. This technology is applied through the use of Bonal's industrial product lines: Meta-Lax® Stress Relief, Pulse Puddle Arc Welding® (PPAW®) and Black Magic® equipment. These truly "GREEN" machines help preserve the environment and significantly reduce costs.

2007 Key Accomplishments

Bonal increased total unit sales by six percent. Satisfied repeat customers include Siemens Power, U.S. Navy, Boeing, Caterpillar and General Electric-Singapore. USA sales were 70 percent, a 15 percent increase from 2006. Foreign sales were 30 percent. Bonal had dollar sales in 43 states and 17 foreign countries.

In terms of dollars and percentage profit, Bonal topped its sales from 2006, making 2007 our best year. In the year ended March 31, 2007, Bonal International, Inc. again posted a strong set of results, with net sales up by 2.5 percent to \$2,031,598 and before tax income at a strong \$490,653, compared to a before tax profit of \$376,058 last year. As a result of our healthy profit, stockholder equity is up 33 percent, the highest it has been at \$1,061,631 or \$0.64 per share. Retained earnings are positive at \$450,679, after paying a \$0.05 dividend totaling \$83,046. Assets increased 26.8 percent to \$1,362,238 or \$0.82 per share. Working capital increased 39 percent.

Net income after tax is \$340,653 or \$0.21 per share compared to a net income of \$251,058 or \$0.15 per share last year, an increase of 35.7 percent.

In the past year, Bonal introduced a software upgrade for its Meta-Lax sub-harmonic stress relief system Model 2700 at the International Manufacturing Technology Show. Bonal also received CE certification for its computerized Meta-Lax® sub-harmonic stress relief interface console, Model 2725.

The CE-approved product certification ensures our equipment is compatible to European Union standards and opens the door to additional growth in the European market.

Bonal is transitioning and expanding its rental fleet from Meta-Lax® 1701 semi-automatic systems to the Meta-Lax® 2700 computerized systems.

Some of our 2006 profits were invested in the expansion of the marketing department and to improve our public relations and marketing strategies to generate more sales. With these efforts, trade magazines featured several case studies on how Bonal's products helped make our customers more successful in the aerospace and heavy industrial machining industries.

The company participated in five trade shows, expanded public relations efforts and used internet marketing, advertising and trade journal print advertising to market Bonal's products. These marketing efforts drove more traffic to our websites, increased Bonal's name recognition and the number of inquires from industries globally.

2008 Key Initiatives

We will continue to enhance our presence in the global marketplace and build Bonal's reputation and our brand names Meta-Lax® Stress Relief, Pulse Puddle Arc Welding® (PPAW®) and Black Magic® for Distortion Control.

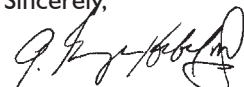
While expanding our presence at tradeshow including two new shows within the coal mining industry, and in trade publications, we expect to attract potential customers to purchase Bonal's products. We also plan to implement strategies to drive more traffic to the Bonal websites to prompt potential customers to investigate and evaluate our technology.

In further efforts to enhance the company's growth we plan to expand our sales team, which includes, inside sales, domestic and foreign agents.

Moving Forward

With your support we strive to provide quality products to our customers worldwide. Our goal is to continue to forge stronger customer relationships that exceed expectations. We are poised to maintain the growth of Bonal as we move into the future. Thank you for your continued support.

Sincerely,



A. George Hebel, III
Chairman, C.E.O.



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Bonal International, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheet of Bonal International, Inc. and Subsidiary as of March 31, 2007 and 2006 and the related consolidated statements of operations, stockholders' equity, and cash flows for each year in the three-year period ended March 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bonal International, Inc. and Subsidiary at March 31, 2007 and 2006 and the consolidated results of their operations, changes in capital and surplus and their cash flows for each year in the three-year period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

June 7, 2007

Bonal International, Inc. and Subsidiary

Consolidated Balance Sheet

	Assets	
	March 31	
	2007	2006
Current Assets		
Cash and cash equivalents	\$ 393,572	\$ 401,883
Investments	244,791	120,000
Accounts receivable	306,624	186,943
Inventory	335,228	282,173
Prepaid expenses and other current assets:		
Prepaid expenses	18,921	17,941
Deferred tax recovery (Note 5)	13,000	6,900
Other current assets	<u>12,091</u>	<u>11,141</u>
Total current assets	1,324,227	1,026,981
Property and Equipment - Net (Note 3)	<u>38,011</u>	<u>47,580</u>
Total assets	<u>\$ 1,362,238</u>	<u>\$ 1,074,561</u>

Liabilities and Stockholders' Equity

	March 31	
	2007	2006
Current Liabilities		
Accounts payable	\$ 40,340	\$ 28,720
Accrued and other current liabilities:		
Taxes payable	66,161	69,301
Accrued compensation	110,944	92,161
Customer deposits and advances	6,400	31,663
Other accrued liabilities	<u>58,672</u>	<u>30,427</u>
Total current liabilities	282,517	252,272
Other Long-term Liabilities		
Deferred rent incentive (Note 6)	12,190	17,065
Deferred tax liabilities (Note 5)	5,900	7,200
Stockholders' Equity (Note 2)	<u>1,061,631</u>	<u>798,024</u>
Total liabilities and stockholders' equity	<u>\$ 1,362,238</u>	<u>\$ 1,074,561</u>

Bonal International, Inc. and Subsidiary

Consolidated Statement of Operations

	<u>Year Ended March 31</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net Sales	\$ 2,031,598	\$ 1,982,071	\$ 1,511,431
Cost of Sales	<u>459,755</u>	<u>525,648</u>	<u>379,857</u>
Gross Profit	1,571,843	1,456,423	1,131,574
General and Administrative Expenses	<u>1,090,547</u>	<u>1,080,274</u>	<u>816,216</u>
Operating Income	481,296	376,149	315,358
Nonoperating Income (Expense)			
Interest income	7,897	2,127	457
Interest expense	-	(1,414)	(3,034)
Other (expense)	<u>1,460</u>	<u>(804)</u>	<u>(6,994)</u>
Total nonoperating income (expense)	<u>9,357</u>	<u>(91)</u>	<u>(9,571)</u>
Income - Before income taxes	490,653	376,058	305,787
Income Tax Expense	<u>150,000</u>	<u>125,000</u>	<u>66,000</u>
Net Income	<u>\$ 340,653</u>	<u>\$ 251,058</u>	<u>\$ 239,787</u>
Per Share Data - Net Income	\$ 0.21	\$ 0.15	\$ 0.14
Weighted Average Number of Shares Used in per Share Computation	1,659,839	1,671,755	1,674,922

See Notes to Consolidated Financial Statements.

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
Balance - April 1, 2004	\$ 8,280	\$ 190	\$ 605,982	\$ (230,777)	\$ 383,675
Net income	-	-	-	239,787	239,787
Balance - March 31, 2005	8,280	190	605,982	9,010	623,462
Net income	-	-	-	251,058	251,058
Stock redemption	-	(190)	(9,310)	-	(9,500)
Dividends paid (\$.04 per share)	-	-	-	(66,996)	(66,996)
Balance - March 31, 2006	8,280	-	596,672	193,072	798,024
Net income	-	-	-	340,653	340,653
Stock issuance	30	-	5,970	-	6,000
Dividends paid (\$.05 per share)	-	-	-	(83,046)	(83,046)
Balance - March 31, 2007	<u>\$ 8,310</u>	<u>\$ -</u>	<u>\$ 602,642</u>	<u>\$ 450,679</u>	<u>\$ 1,061,631</u>

See Notes to Consolidated Financial Statements.

Bonal International, Inc. and Subsidiary

Consolidated Statement of Cash Flows

	<u>Year Ended March 31</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities			
Net income	\$ 340,653	\$ 251,058	\$ 239,787
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	19,444	21,507	32,174
Amortization of deferred rent incentive	(4,875)	(3,854)	786
Deferred income taxes	(7,400)	11,300	5,000
Net change in:			
Accounts receivable	(119,681)	(107,319)	35,246
Inventory	(53,055)	27,293	(45,628)
Prepaid expenses and other	(1,930)	4,519	(6,283)
Accounts payable	11,620	2,923	(10,936)
Accrued liabilities and other	18,625	76,935	86,034
Net cash provided by operating activities	203,401	284,362	336,180
Cash Flows from Investing Activities			
Purchase of property and equipment	(9,875)	(32,568)	(48,079)
Purchase of investments	(124,791)	(120,000)	-
Net cash used in investing activities	(134,666)	(152,568)	(48,079)
Cash Flows from Financing Activities			
Proceeds from debt	-	-	12,758
Payment on debt	-	(12,758)	-
Payment on line of credit - Net	-	(32,000)	(19,000)
Proceeds from issuance of common stock	6,000	-	-
Redemption of common stock	-	(9,500)	-
Dividends paid	(83,046)	(66,996)	-
Net cash used in financing activities	(77,046)	(121,254)	(6,242)
Net (Decrease) Increase in Cash and Cash Equivalents	(8,311)	10,540	281,859
Cash and Cash Equivalents - Beginning of year	401,883	391,343	109,484
Cash and Cash Equivalents - End of year	<u>\$ 393,572</u>	<u>\$ 401,883</u>	<u>\$ 391,343</u>
Supplemental Cash Flow Information			
Cash paid for			
Interest	\$ -	\$ 1,414	\$ 3,034
Income taxes	160,540	106,899	-

Note I - Nature of Business and Significant 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 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 collectibility 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 as of March 31, 2007 and 2006 was \$4,800.

Inventories - Inventories consist primarily of work in process 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 weighted average number of common shares outstanding during each year.

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

Reclassification - Certain 2006 and 2005 amounts have been reclassified to conform to the 2007 presentation.

Note 2 - Stockholders' Equity

The Company's common stock at March 31, 2007 and 2006 consists of the following:

- Class A common, voting stock 5,000,000 authorized shares, with \$.005 par value. A total of 1,661,922 and 1,655,922 shares were issued and outstanding at March 31, 2007 and 2006, respectively.
- Class B common, nonvoting stock, 5,000,000 authorized shares with \$.01 par value. There were no shares issued or outstanding at March 31, 2007 and 2006.
- Preferred stock, 200,000 authorized shares, with \$.01 par value. There were no shares issued and outstanding at March 31, 2007 and 2006.

Note 3 - Property and Equipment

Major classes of property and equipment are as follows:

	<u>2007</u>	<u>2006</u>
Machinery and equipment	\$ 49,298	\$ 48,407
Displays	17,294	16,097
Transportation equipment	25,675	25,675
Office furniture and equipment	229,351	263,324
Leasehold improvements	<u>5,367</u>	<u>5,367</u>
Total cost	326,985	358,870
Accumulated depreciation	<u>(288,974)</u>	<u>(311,290)</u>
Net property and equipment	<u>\$ 38,011</u>	<u>\$ 47,580</u>

Depreciation expense was \$19,444, \$21,507, and \$32,174 for the years ended March 31, 2007, 2006, and 2005, respectively.

Note 4 - Line of Credit

During fiscal year 2006, the demand note was increased to \$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 March 31, 2007 and 2006.

Note 5 - Income Taxes

The provision for income taxes consists of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current expense	\$ 157,400	\$ 113,700	\$ 61,000
Deferred (benefit) expense	(7,400)	11,300	11,000
Valuation allowance	-	-	(6,000)
	<u> </u>	<u> </u>	<u> </u>
Net income tax expense	<u>\$ 150,000</u>	<u>\$ 125,000</u>	<u>\$ 66,000</u>

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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Income tax expense - Computed at			
34 percent of pretax income	\$ 167,000	\$ 127,900	\$ 113,100
Effect of nondeductible expense	3,000	9,400	6,300
Effect of nontaxable income	(9,000)	(8,000)	-
Effect of net operating loss carryforwards	-	-	(47,804)
Effect of adjustment of prior year estimates	(11,000)	(4,300)	(5,596)
	<u> </u>	<u> </u>	<u> </u>
Net income tax expense	<u>\$ 150,000</u>	<u>\$ 125,000</u>	<u>\$ 66,000</u>

Deferred tax assets result primarily from differences in the period of deductibility of certain expenses and net operating losses. The deferred tax asset totaled \$13,000 and \$6,900, as of March 31, 2007, and 2006, respectively. The deferred tax liability totaled \$5,900 and \$7,200 as of March 31, 2007 and 2006 respectively.

Note 6 - Lease Commitments

The Company leases office and manufacturing space under various operating lease agreements. In connection with the operating lease for its office and manufacturing space, the Company was granted a period of free rent. For financial reporting purposes, annual expense for this lease is recorded on a straight-line basis over the term of the lease. The difference between the annual expense for financial reporting purposes and the annual payments is reflected as a deferred lease obligation and amortized over the life of the lease.

Rent expense for all leased property totaled \$62,598, for the years ended March 31, 2007, 2006, and 2005.

As of March 31, 2007, future minimum lease payments under lease agreements are as follows:

Years Ending <u>March 31</u>	<u>Amount</u>
2008	\$ 67,474
2009	67,474
2010	<u>33,737</u>
Total	<u>\$ 168,685</u>

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 made contributions of \$7,390 to the plan in fiscal year ending March 31, 2007. There were no contributions made by the Company during fiscal years 2006, and 2005.

Note 8 - Stock Options

During 1998, the Company entered into a stock option agreement for 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 2007, 5,000 of these options were exercised. A total of 275,000 shares were outstanding and unexercised as of March 31, 2007.

During 1997, the Company entered into two stock option agreements for directors, officers, and employees. The first stock option agreement granted directors the option to purchase a total of 210,000 shares of previously authorized but unissued Class A common stock for \$1.50 per share at any time prior to January 23, 2007. The second agreement also granted officers and employees the option to purchase a total of 98,200 shares of previously authorized but unissued Class A common stock for \$1 per share at any time prior to January 23, 2007. During 2007, 1,000 of these options were exercised. The remaining stock option agreements were outstanding and unexercised as of March 31, 2006 and 2005 and expired unexercised on January 23, 2007.

Stock Based Compensation - The Company has elected to follow Accounting Principles Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its employee stock options issued prior to April 1, 2006 because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123 (SFAS 123), *Accounting for Stock-Based Compensation*, requires use of option valuation models that were not developed for use in valuing stock options. Under APB 25, compensation expense is 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 was required by SFAS 123. However, since the stock options issued would have an antidilutive effect on earnings per share, the required pro forma information has been omitted for the years ended March 31, 2007, 2006, and 2005. The impact of using the fair value approach of accounting for the stock options on earnings per share and net income is nominal.

Note 8 - Stock Options (Continued)

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123R (SFAS 123R), a revision to Statement No. 123, *Accounting for Stock-Based Compensation*. This standard requires the Company to measure the cost of employee services received in exchange for equity awards, including stock options, based on the grant date fair value of the awards. The cost will be recognized as compensation expense over the vesting period of the awards. The Company adopted SFAS 123R 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 9 - 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.

Line of Credit and Notes Payable - The fair value of the Company's line of credit and notes payable approximates the carrying amounts in the accompanying consolidated financial statements as the current borrowing rates reflect market rates.

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

Directors and Officers

① ② **A. George Hebel, III**
Chairman, President and C.E.O.

Thomas E. Hebel
Director and Vice President

Paul Y. Hebel
Director and Asst. Secretary

② ③ **Brian F. York, C.P.A.**
Director and Treasurer

① **Betty Jean Hebel, Ph.D.**
Director, Secretary, and
Vice President of International Sales

- ① Executive Committee
- ② Finance Committee
- ③ Compensation Committee

Corporate Headquarters

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

Phone: 248 582.0900
Toll Free: 800 METAL-29
Fax: 248 582.0901
E-Mail: info@bonal.com
Web: www.bonal.com
www.meta-lax.com
www.pulsepuddle.com
www.distortioncontrol.com

Auditors

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307

Transfer Agent

OTC Stock Transfer, Inc.
P.O. Box 65665
Salt Lake City, UT 84165