BONAL INTERNATIONAL INC®

# 2023

# Annual Report

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# 2023

# Annual Report

**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 equipment. Headquartered in Royal Oak, Michigan, Bonal also provides a complete variety of consulting, training, program design, and metal stress relief service to several industries including: automotive, aerospace, shipbuilding, machine tool, plastic molding, and die casting, and others. Bonal's patented products and services are sold throughout the U.S. and in over 64 foreign countries.

## Financial Highlights

| Year Ending March 31 | 2023 | 2022 | 2021 |
|---|---|---|---|
| **Total Revenues** | 1,777,283 | 1,724,800 | $1,330,691 |
| **Gross Profit** | 1,264,245 | 1,313,804 | 970,213 |
| **Net Earnings** | 51,321 | 186,207 | 89,294 |
| **Total Assets** | 1,965,113 | 1,870,293 | 1,701,457 |
| **Working Capital** | 1,462,019 | 1,640,744 | 1,531,574 |
| **Earnings per Share** | 0.03 | 0.11 | 0.05 |
| **Stockholders' Equity** | 1,630,818 | 1,666,893 | 1,568,082 |
| **Trading Activity Hi/Low** | 2.00 / 1.35 | 2.05 / 1.42 | 2.06 / 1.30 |
| **Dividend Paid per Share** | 0.05 | 0.05 | 0.00 |

## Fiscal 2023 Quarters Ended

| | June 30 | September 30 | December 30 | March 31, 2021 |
|---|---|---|---|---|
| **Total Revenues** | 482,360 | 411,078 | 384,626 | 499,219 |
| **Gross Profit** | 356,605 | 287,905 | 273,194 | 346,541 |
| **Net Earnings** | 19,202 | 1,824 | (28,804) | 59,099 |

## Fiscal 2021 Quarters Ended

| | June 30 | September 30 | December 30 | March 31, 2020 |
|---|---|---|---|---|
| **Total Revenues** | 411,116 | 553,355 | 361,594 | 398,735 |
| **Gross Profit** | 297,448 | 376,394 | 291,352 | 348,610 |
| **Net Earnings** | 36,335 | 76,638 | 12,221 | 61,013 |

## Sales Breakdown for Fiscal Year 2023

| Equipment and Service Revenue | Rental Revenue |
|---|---|
| $1,610,118 | $167,165 |

**March 31, 2023**

**Dear Shareholders,**

March 31, 2023

Dear Shareholder,

Fiscal year 2023 turned out to be a year of challenge, recovery, excitement, and reflection.

Throughout the year, the metal working industry was still operating at near recessionary levels. This post-pandemic condition made selling our Meta-Lax products a challenge. Nevertheless, by successfully navigating those economic straits, Bonal was able to return to our normal operating procedures with complete staffing. Further, Bonal International, Inc.'s unique contributions to the industry were nationally recognized when Manufacturing Technology Insights awarded Bonal with its coveted "Top Metal Working Company" of the year award.

For fiscal year 2023, Bonal increased revenue by 3.0 percent. Net earnings were $51,321, although down from the year before, this year was the 18th profitable year out of the last 19 fiscal years. The board of directors issued our shareholders another dividend, the 26th dividend over the last 18 fiscal years. Shareholder's Equity was down slightly by 2.2 percent.

Fiscal year 2023 was a turning point for me. After working for Bonal for 50 years, and serving as president for the last 13 years, I decided to retire as a full-time executive. I will remain involved with Bonal and continue to serve as Chairman of the Board.

My goal as president was to see our Meta-Lax technology, which squares off against the dominant heat treat monopoly, be accepted as a practical alternative to heat treat stress relief. I believe that goal has been accomplished. The fiscal year of 2023 provided us with two clear examples of that acceptance.

First, Bonal's contributions to the metal-working industry were recognized when we received the Top Metal Working Company of the year award and an accompanying cover story describing the benefits of our revolutionary Meta-Lax process. Second, our patented Meta-Lax process was recognized in the aerospace industry as not only an accepted alternative, but also as the preferred method of stress relief on the manufacturing specifications for ultra-precise gyroscope housings for NASA's deep space impactors.

During this fiscal year, the review committee of a prominent trade magazine, Manufacturing Technology Insights, having 153,000 subscribers, initially selected Bonal as one of its Top 10 Metal Working Companies of the year. Then, after further evaluation, MTI choose Bonal as their Top Metal Working Company of the year. The senior editor of MTI had his key technical journalist write a 4-page feature article about Bonal and its Meta-Lax stress relief process. They named the article "Bonal Technologies – The New Era in Metal Stress Relief." The editor then decided to make this article the Cover Story for their September 2022 issue. In this article, Bonal was labeled as industry's "go-to" company for stress relief solutions. MTI also explained that the Meta-Lax process was not only as effective as heat treat stress relief, but extremely eco-friendly. Then MTI listed 15 different areas where Bonal's Meta-Lax process could stress relieve metal parts that would be difficult or impossible for heat treat stress relief to handle.

The industry-wide recognition of Bonal's accomplishments and the growing momentum from industrial acceptance, and preference, serve as both a fitting legacy of my presidency and a springboard for Bonal's next stage of evolution as the company continues to grow and develop.

As I look back on the 13 years that I served as Bonal's president, I am proud of the many accomplishments Bonal has achieved:

- Most notably, Bonal has both achieved and maintained extremely high levels of customer satisfaction. This satisfaction leads our customers to be our greatest resource, as our customer base accounts for nearly half of all sales by volume through either repeat business or referrals.
- Our state-of-the-art computer-controlled system, which was introduced in FY 2019, has proven extremely successful. This has been especially true in the last three years where this system has accounted for 60 percent of our sales by volume.
- Bonal has sold Meta-Lax equipment in all 50 states and internationally in 64 different countries.
- Bonal was profitable in 12 of the last 13 years and averaged almost 10 percent profit. The only exception occurred when the pandemic significantly hampered our ability to do business.
- As a small company, we weathered the worse pandemic in over 100 years while retaining our skilled and experienced workforce.
- Bonal has issued 21 dividends over the past 13 years.

Although I consider our Meta-Lax stress relief process one of the most important advancements to come to the metal-working industry in over a century, I know there is much work yet to be done, a wider acceptance to be gained, and more energy to be saved. This is the challenge I give to the next president.

Finally, it has truly been a blessing to serve you as the president of Bonal for the past 13 years and to have worked for this company for 50 years. Over the years, I have always appreciated the support of the investing community and our shared goal of taking the metal-working industry to the next level. I am truly thankful for your support over the years and for your continued support as we transition to Bonal's next era.

With best regards,

Thomas E Hebel

Thomas E. Hebel
Chairman

Cohen & Co®

<u>Independent Accountants' Review Report</u>

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

We have reviewed the accompanying consolidated financial statements of Bonal International, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheet as of March 31, 2023 and 2022, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended March 31, 2023, 2022, and 2021, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

***Management's Responsibility for the 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.

***Accountant's Responsibility***

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Bonal International, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

***Accountant's Conclusion***

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

***Adoption of New Accounting Standard***

As discussed in Note 2 to the financial statements, in 2022, the Company adopted Accounting Standards Codification 842, *Leases.* Our conclusion is not modified with respect to this matter.

Cohen & Company Ltd.

St. Clair Shores, Michigan
October 10, 2023

| | | March 31, | |
|---|---|---|---|
| | 2023 | | 2022 |
| **Assets** | | | |
| **Current Assets** | | | |
| Cash | $ 706,665 | | $ 1,058,089 |
| Accounts receivable-trade, net | 250,112 | | 22,583 |
| Inventories, net | 657,718 | | 694,888 |
| Prepaid expenses and other current assets: | | | |
| Prepaid expenses | 34,734 | | 38,971 |
| Other current assets | 75,525 | | 29,613 |
| Total current assets | 1,724,754 | | 1,844,144 |
| **Property and Equipment, Net** | 20,181 | | 19,649 |
| **Deferred Tax Asset** | 30,100 | | 6,500 |
| **Other Assets** | | | |
| Operating lease right-of-use assets | 190,078 | | |
| Total assets | **$ 1,965,113** | | **$ 1,870,293** |
| **Liabilities and Stockholders' Equity** | | | |
| **Current Liabilities** | | | |
| Accounts payable | $ 20,304 | | $ 14,873 |
| Accrued and other current liabilities: | | | |
| Accrued compensation | 86,681 | | 111,852 |
| Customer deposits and advances | 23,000 | | 31,000 |
| Accrued income tax liabilities | 7,000 | | 38,719 |
| Other accrued liabilities | 4,917 | | 6,956 |
| Current portion of lease liabilities | 120,833 | | |
| Total current liabilities | 262,735 | | 203,400 |
| **Long-Term Liabilities** | | | |
| Operating lease liabilities | 71,560 | | |
| **Stockholders' Equity** | 1,630,818 | | 1,666,893 |
| Total liabilities and stockholders' equity | **$ 1,965,113** | | **$ 1,870,293** |

| | Year Ended March 31, 2023 | 2022 | 2021 |
|---|---|---|---|
| **Net Sales** | | | |
| Contract revenue | $ 1,610,118 | $ 1,504,580 | $ 1,183,366 |
| Rental revenue | 167,165 | 220,220 | 147,325 |
| Total net sales | 1,777,283 | 1,724,800 | 1,330,691 |
| **Cost of Sales** | 513,038 | 410,996 | 360,478 |
| **Gross Profit** | 1,264,245 | 1,313,804 | 970,213 |
| **General and Administrative Expenses** | 1,208,430 | 1,086,572 | 891,381 |
| **Operating Income** | 55,815 | 227,232 | 78,832 |
| **Nonoperating Income (Expense)** | | | |
| Interest income | 1,570 | 1,244 | 2,878 |
| Interest expense | (2,315) | | |
| Other income (expense) | (1,561) | (487) | 5,831 |
| Total nonoperating income (expense) | (2,306) | 757 | 8,709 |
| **Income** - Before income taxes | 53,509 | 227,989 | 87,541 |
| **Income Tax Expense (Benefit)** | 2,188 | 41,782 | (1,753) |
| **Net Income** | **$ 51,321** | **$ 186,207** | **$ 89,294** |
| **Per-Share Data** - Net Income | $ 0.03 | $ 0.11 | $ 0.05 |
| **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.

| | Class A Common Stock | Additional Paid-in Capital | Retained Earnings | Total |
|---|---|---|---|---|
| **Balance** - April 1, 2020 | $ **8,740** | $ **688,212** | $ **781,836** | $ **1,478,788** |
| Net Income | | | 89,294 | 89,294 |
| **Balance** - March 31, 2021 | **8,740** | **688,212** | **871,130** | **1,568,082** |
| Net Income | | | 186,207 | 186,207 |
| Dividends ($0.05 per share) | | | (87,396) | (87,396) |
| **Balance** - March 31, 2022 | **8,740** | **688,212** | **969,941** | **1,666,893** |
| Net Income | | | 51,321 | 51,321 |
| Dividends ($0.05 per share) | | | (87,396) | (87,396) |
| **Balance** - March 31, 2023 | $ **8,740** | $ **688,212** | $ **933,866** | $ **1,630,818** |

## Consolidated Statements of Cash Flows

| | Year Ended March 31, | | |
|---|---|---|---|
| **Cash Flows Provided by (Used in) Operating Activities** | **2023** | **2022** | **2021** |
| Net income | $ 51,321 | $ 186,207 | $ 89,294 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 10,130 | 8,517 | 7,806 |
| Loss on disposal of property and equipment | | 307 | |
| Operating lease expense | 70,201 | | |
| Deferred income taxes | (23,600) | 3,200 | (3,200) |
| Net change in: | | | |
| Accounts receivable-trade, net | (227,529) | 45,411 | 21,364 |
| Inventories, net | 37,170 | (180,935) | (12,822) |
| Prepaid expenses and other current assets | (41,675) | 7,782 | (9,871) |
| Refundable income taxes | | 4,114 | 44,907 |
| Accounts payable | 5,431 | (9,177) | 18,871 |
| Accrued expenses and other current liabilities | (66,929) | 79,202 | 36,944 |
| Operating lease liabilities | (67,886) | | |
| Net cash provided by (used in) operating activities | (253,366) | 144,628 | 193,293 |
| **Cash Flows Used in Investing Activity** | | | |
| Purchase of property and equipment | (10,662) | (1,665) | (14,221) |
| **Cash Flows Used in Financing Activity** | | | |
| Dividends paid | (87,396) | (87,396) | |
| **Net Increase (Decrease) in Cash** | (351,424) | 55,567 | 179,072 |
| **Cash - Beginning of year** | 1,058,089 | 1,002,522 | 823,450 |
| **Cash - End of year** | **$ 706,665** | **$ 1,058,089** | **$ 1,002,522** |
| **Supplemental Financial Information** | | | |
| Income taxes paid | **$ 57,500** | | |
| Cash paid for amounts included in the measurement of lease liabilities | | | |
| Operating cash flows from operating leases | **$ 73,761** | | |
| **Non-Cash Investing and Financing Transactions** | | | |
| Right-of-use assets obtained in exchange for operating lease liabilities | **$ 260,279** | | |

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** - Headquartered in Royal Oak, Michigan, Bonal Technologies, Inc. provides a complete variety of consulting, training, program design, and metal stress relief services to several industries including: automotive, aerospace, mining, petroleum, shipbuilding, welding, machine tooling, plastic molding, racing, engine building, armament, and die casting. The Company's patented technology and its three distinct product lines: (1) Meta-Lax Stress Relief, (2) Pulse Puddle Arc Welding (PPAW), and (3) Black Magic, are sold throughout the United States and in over 64 countries.

**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 (GAAP).

**Concentrations of Credit Risk** - The Company primarily deposits cash with financial institutions and at times throughout the year may maintain balances that exceed federally insured limits of $250,000, per depositor, per insured institution. 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.

The Company had three customers that accounted for approximately 40% and three different customers that accounted for approximately 47% of accounts receivable-trade, net at March 31, 2023 and 2022, respectively. Due to the nature of the Company's business, the customers that comprise these concentrations change from year to year.

**Use of Estimates** - The preparation of consolidated financial statements in conformity with GAAP 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, and such differences may be material.

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

**Accounts Receivable-Trade** - 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 individual accounts receivable balance based on historical collectability and estimates the portion, if any, of the individual balances 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, 2023 and 2022, was $3,000. The balance of accounts receivable-trade, net as of April 1, 2021, was approximately $68,000.

**Inventories** - Inventories consist of raw materials, work in progress, and finished goods and are stated at the lower of cost, determined on the first-in, first-out (FIFO) method, or net realizable value. Finished goods includes a rental fleet for units rented to customers on a short term basis. At March 31, 2023 and 2022, approximately $82,000 and $86,000, respectively, relate to rental units within finished goods. A valuation allowance is provided for obsolete and slow moving inventory to write down costs to net realizable value. The Company has recorded an obsolescence reserve as of March 31, 2023 and 2022, of approximately $10,000.

**Property and Equipment -** Property and equipment are recorded at cost. Depreciation and amortization of property and equipment is provided by use of the straight-line and accelerated methods over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Machinery and equipment | 7 - 10 years |
| Displays | 5 years |
| Transportation equipment | 5 years |
| Office furniture and equipment | 3 - 10 years |
| Leasehold improvements | lease term |

**Revenue Recognition** - The Company's revenues primarily result from the sale of new and used metal stress relief products and accessories and related rental, servicing, repair, and training services. The issuance of a purchase order is generally the point at which a contract is identified for accounting and financial reporting purposes. The Company recognizes revenue for the sale of new and used units, and the related servicing, repair, and training services when the Company satisfies its performance obligation under the contract by transferring the promised product or service to the customer when the customer obtains control of the product or service. For products, this generally happens at the point of shipment. Products sold by the Company are delivered via shipment from the Company's facilities. For services, this happens upon completion of the service. The Company's contracts primarily consist of a single performance obligation.

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

**Revenue Recognition (continued)** - The Company utilizes the following practical expedients and policy elections when recognizing revenue and related costs: (1) to apply certain practical expedients available with respect to disclosure requirements, (2) the transaction price is not adjusted for any significant financing component, as the expected time period between when the Company transfers the promised goods to the customer and payment is less than one year, (3) incremental costs of obtaining a contract are expensed when the amortization period is one year or less, (4) ASC 606 is applied to a portfolio of contracts (or performance obligations) with similar characteristics, (5) all shipping and handling activities are accounted for as activities to fulfill the promise to transfer the good, not as a separate performance obligation, and (6) the transaction price excludes tax amounts assessed by governmental authorities that are both (i) imposed on and concurrent with a specific to nonpublic companies with respect to disclosure requirements and (ii) collected from customers.

The Company provides a warranty for its products. Such warranties, however, are limited to standard contractually based periods and are not separately sold, and are considered to be assurance-type warranties that are not separate performance obligations.

Rental revenues are recognized over the term of the lease agreement as the customer receives/consumes the benefit, typically monthly. Generally, rental customers are required to provide security deposits at the inception of the contract. Any remaining deposits are returned within 30 days of the end of the contract.

**Income Taxes** - Deferred tax assets and liabilities are recognized for the future tax benefits and consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes and discloses uncertain tax positions in accordance with GAAP. As of March 31, 2023 and 2022, and for the years ended March 31, 2023, 2022, and 2021, the Company did not have a liability for unrecognized tax benefits.

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

**Subsequent Events** - Management has evaluated subsequent events through October 10, 2023, the date the consolidated financial statements were available to be issued.

**Note 2 – Summary of Significant Accounting Policies**

Adoption of New Accounting Pronouncement - Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued accounting standards update (ASU) 2016-02, *Leases* (known as FASB Accounting Standards Codification [ASC] 842) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in ASC 842 is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, expanded disclosures are required about the nature and terms of lease agreements to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The comparative information presented in the accompanying financial statements continues to be reported under prior lease guidance in accordance with ASC 840.

The Company adopted the provisions of ASC 842 effective April 1, 2022, and recognized and measured leases existing at, or entered into after the beginning of the period of adoption, with certain practical expedients available. Lease disclosures for the year ended March 31, 2022, are made under prior lease guidance in ASC 840. The adoption of ASC 842 had a material impact on the Company's financial statements, the financial statement presentation and disclosures have changed. No cumulative adjustment to retained earnings was needed upon adoption. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while the accounting for finance leases remained substantially unchanged.

Concurrent with the adoption of ASC 842, the Company elected the following implementation package of practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of ASC 842, on April 1, 2022, the Company recognized operating lease liabilities of approximately $192,000, which represents the present value of the remaining operating lease payments of approximately $199,000, discounted using the private company alternative, the risk-free rate, and related ROU assets in the same amount.

Leases

The Company determines if an arrangement is, or contains, a lease at the inception date. In evaluating contracts to determine if they qualify as a lease, the Company considers factors such as if the Company has obtained substantially all of the rights to the underlying asset through exclusivity, if the Company can direct the use of the asset by making decisions about how and for what purpose the asset will be used, and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

**Note 2 – Summary of Significant Accounting Policies**

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at the commencement date based primarily on the present value of lease payments over the lease term. In determining the discount rate used to measure the ROU assets and lease liabilities, the Company uses rates implicit in the lease, when available. If the rate implicit in the lease is not readily available, the Company has elected to use a risk-free rate for all classes of assets. The risk-free rate used is the "U.S. Treasury Bill Rate" in effect at the commencement of the lease for a similar term. The operating lease ROU assets also include any lease payments made at commencement and exclude lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense is recognized on a straight-line basis over the lease term.

The Company elected to apply the short-term lease exemption. Under this exemption, ROU assets and lease liabilities are not recognized for leases with an initial term of 12 months or less. The Company does not currently have any material short-term lease arrangements.

The Company elected the practical expedient to account for lease and non-lease components as a single lease component. For arrangements accounted for as a single lease component, there may be variability in future lease payments as the amount of the non-lease components is typically revised from one period to the next. Payments for non-lease components, which are primarily comprised of common area maintenance, utilities, insurance, capital expenditures, and real estate taxes that are passed on from the lessor in proportion to the space leased, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

Leases Prior to the Adoption of ASC 842

Prior to the adoption of ASC 842, under ASC 840, lease expense related to operating leases was recognized on a straight-line basis over the lease term with disclosures made regarding future minimum payments. Prior to the adoption of ASC 842, there was no recognition of operating leases on the consolidated balance sheet.

**Note 3 - Inventories**

Major classes of inventories are as follows:

| | 2023 | 2022 |
|---|---|---|
| Raw materials | $ 373,966 | $ 338,915 |
| Work in process | 101,587 | 104,039 |
| Finished goods | 192,236 | 262,005 |
| **Total** | **667,789** | **704,959** |
| Reserve for obsolescence | (10,071) | (10,071) |
| **Total Inventories, Net** | **$ 657,718** | **$ 694,888** |

**Note 4 – Property and Equipment**

Major classes of property and equipment are as follows:

| | 2023 | 2022 |
|---|---|---|
| Machinery and equipment | $ 59,180 | $ 59,180 |
| Displays | 29,078 | 29,078 |
| Transportation equipment | 46,448 | 46,448 |
| Office furniture and equipment | 276,079 | 268,235 |
| Leasehold improvements | 13,968 | 13,968 |
| **Total cost** | **424,753** | **416,909** |
| Accumulated depreciation and amortization | (404,572) | (397,260) |
| **Property and equipment - Net** | **$ 20,181** | **$ 19,649** |

**Note 5 - Income Taxes**

The provision for (benefit from) income taxes consists of the following for the years ended:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Current expense (benefit) | $ 25,788 | $ 38,582 | $ 1,447 |
| Deferred expense (benefit) | (23,600) | 3,200 | (3,200) |
| Net income tax expense (benefit) | $ 2,188 | $ 41,782 | $ (1,753) |

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:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Income tax expense (benefit) - Computed at 21% of pretax income | $ 11,870 | $ 47,791 | $ 18,384 |
| State income taxes | 800 | 1,014 | |
| Effect of nondeductible expense | 651 | 651 | 522 |
| Effect of tax credits and special deductions | (12,400) | (9,970) | (4,695) |
| Effect of adjustment of prior year estimates and other | 1,267 | 2,296 | (15,964) |
| Net income tax expense (benefit) | $ 2,188 | $ 41,782 | $ (1,753) |

**Note 5 – Income Taxes (Continued)**

At March 31, 2023 and 2022, gross deferred tax assets and gross deferred tax liabilities were comprised of the following:

| | 2023 | 2022 |
|---|---|---|
| Gross deferred tax assets | $ 35,700 | $ 10,200 |
| Gross deferred tax liabilities | (5,600) | (3,700) |
| | $ 30,100 | $ 6,500 |

Deferred tax assets result primarily from differences in the year of deductibility of certain expenses as well as capitalization of research and development expenses. Deferred tax liabilities result from different methods used for depreciation for financial reporting and income tax purposes. The Company had no valuation allowance on its deferred tax asset in either year.

**Note 6 - Commitments**

Leases Under ASC 842

The Company leases office and warehouse space under a long-term operating lease expiring in fiscal year 2026.

At March 31, 2023, the weighted average remaining lease term of all operating leases was 2.58 years and the weighted average discount rate was 2.63%. Total operating lease expense for the year ended March 31, 2023, was approximately $76,000.

At March 31, 2023, future minimum lease payments are as follows:

| | Operating Lease |
|---|---|
| 2024 | $ 75,602 |
| 2025 | 77,442 |
| 2026 | 45,800 |
| Total undiscounted cash flows | 198,844 |
| Less: Present value discount | (6,451) |
| Total lease liabilities | $ 192,393 |

Leases Prior to the Adoption of ASC 842

At March 31, 2022, minimum annual rentals are as follows:

| | Total |
|---|---|
| 2023 | $ 73,761 |
| 2024 | 75,602 |
| 2025 | 77,442 |
| 2026 | 45,801 |
| | $ 272,606 |

**Note 6 – Commitments (Continued)**

Unit Exchanges

During the year ended March 31, 2019, the Company entered into an agreement with various customers related to the exchange of certain metal stress-relieving equipment. At the option of the customer, the Company will replace an earlier production version of the equipment held by the customer for a production version with updated software. At March 31, 2021, approximately $4,000 of the finalized production units are being held in finished goods inventory, awaiting to be exchanged at the customer's request for the earlier version of the equipment. The Company has determined that the value of the earlier version of the equipment currently held at customer sites amounts to approximately $4,500 at March 31, 2021, and these units will be placed into rental inventory upon exchange. The Company has determined that any offset between the cost of the updated production units and the recovery of cost related to the earlier version to be immaterial, and as a result, no adjustments were made to the consolidated financial statements. As of March 31, 2022, all metal stress-relieving equipment has been exchanged.

**Note 7 - Employment Agreement**

During 2018, the Company entered into an employment agreement with its President with an original expiration date of June 2020. The agreement can be extended annually thereafter. Subsequent to the end of the fiscal year, the Company extended the employment agreement through June 2023. The Company has also entered into a consulting agreement with the President, which is effective for a five-year term upon the retirement of the President from the Company. On June 22, 2023, the Board of Directors of the Company hired a new President and CEO to succeed its current and retiring President and CEO. To ensure a smooth transition, the current President expects to retire mid-October, at which time the consultant agreement will commence.

**Note 8 - Stockholders' Equity**

The Company's stock at March 31, 2023 and 2022, 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, 2023 and 2022.

- Class B common, nonvoting stock, 5,000,000 authorized shares, with $.01 par value.
  There were no shares issued or outstanding at March 31, 2023 and 2022.

- Preferred stock, 200,000 authorized shares, with $.01 par value.
  There were no shares issued or outstanding at March 31, 2023 and 2022.

**Note 9 - 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. There were no contributions made by the Company during the years ended March 31, 2023, 2022, and 2021

**Note 10 – Related Party Transactions**

The Company utilizes services from multiple entities owned by shareholders of the Company. Amounts incurred and paid for related party services totaled approximately $44,000, $36,000, and $33,000 for the years ended March 31, 2023, 2022, and 2021, respectively.

The Company provides compensation to members of their Board of Directors, who are also shareholders of the Company. Board member compensation totaled approximately $47,400, $38,500, and $32,000 for the years ended March 31, 2023, 2022, and 2021, respectively. Included in accounts payable at March 31, 2023 and 2022, is approximately $3,000 and $3,000, respectively, due to related parties.

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

## Directors and Officers

| | | | |
|---|---|---|---|
| ① ④ | Thomas E. Hebel<br>Chairman, President, and CEO | ④ | John A. Hebel<br>Director and Secretary |
| ① ④ | Paul Y. Hebel<br>Director and Vice Chairman | ④ | Betty Jean Hebel, Ph.D.<br>Director |
| ② ③<br>④ | Harold Y. Hebel<br>Director, Treasure, and CFO | | |
| ①<br>② | Executive Committee<br>Audit Committee | ③<br>④ | Compensation Committee<br>Nominating Committee |

## Corporate Headquarters

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1300 North Campbell Road
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**Toll Free:** 800-Meta-Lax
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**Email:** info@Bonal.com
**Website:** www.onal.com

## Independent Accountants

**Cohen & Company, Ltd.**
719 Griswold Street, Suite 920
Detroit, MI 48226

## Transfer Agent

**Pacific Stock Transfer Company**
6725 Via Austi Parkway, Suite 300
Las Vegas, NV 89119

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