



**Financial Statements of Maxco, Inc. and Subsidiaries
with Report of Independent Auditors**

Years Ended March 31, 2007 and 2006

MAXCO, INC. AND SUBSIDIARIES
Financial Statements

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Maxco, Inc. and Subsidiaries
Grand Ledge, Michigan

We have audited the accompanying consolidated balance sheets of *Maxco, Inc. and Subsidiaries* (the "Company") as of March 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. 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 audit 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 consolidated 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 *Maxco, Inc. and Subsidiaries* as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Troy, Michigan
August 28, 2007

/S/ Rehmann Robson

CONSOLIDATED BALANCE SHEETS

MAXCO, INC. AND SUBSIDIARIES

	March 31,	
	2007	2006
	<i>(in thousands)</i>	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 26,004	\$ 738
Restricted cash	100	750
Accounts and notes receivable	213	132
Prepaid expenses and other	84	38
Assets of discontinued business	-	27,325
Total Current Assets	26,401	28,983
Building, real estate, and real estate investments held for sale, net of reserve of \$2.0 million in 2007	9,703	3,527
Cash held in escrow	5,000	-
Investments	377	688
Notes and contracts receivable and other	774	915
Property and equipment, net	8	13
	\$ 42,263	\$ 34,126
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable	\$ -	\$ 1,414
Accounts payable	2,482	280
Employee compensation	578	835
Taxes, interest, and other liabilities	11,737	4,520
Current maturities of long-term obligations	89	3,120
Liabilities of discontinued business	-	13,044
Total Current Liabilities	14,886	23,213
Long-Term Obligations, Less Current Maturities	5,985	1,116
Total Liabilities	20,871	24,329
Contingencies and Commitments—Notes 4 and 10		
Stockholders' Equity		
Preferred stock:		
Series Three: 10% cumulative callable, \$60 face value; 14,784 shares issued and outstanding at March 31, 2006, none at March 31, 2007	-	678
Series Four: 10% cumulative callable, \$51.50 face value; 46,414 shares issued and outstanding at March 31, 2006, none at March 31, 2007	-	2,390
Series Five: 10% cumulative callable, \$120 face value; 6,648 shares issued and outstanding at March 31, 2006, none at March 31, 2007	-	798
Series Six: 10% cumulative callable, \$160 face value; 20,000 shares authorized, 7,812.5 issued and outstanding at March 31, 2006, none at March 31, 2007	-	1,250
	-	5,116
Common stock, \$1 par value; 10,000,000 shares authorized, 3,454,039 shares issued and outstanding	3,454	3,454
Retained earnings	17,938	1,227
Total Stockholders' Equity	21,392	9,797
	\$ 42,263	\$ 34,126

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

MAXCO, INC. AND SUBSIDIARIES

	Year Ended March 31,	
	2007	2006
	<i>(in thousands, except per share data)</i>	
Revenue and Gains:		
Rental income	\$ 538	\$ 122
Investment and other income, net	287	75
Interest income	274	21
	1,099	218
Costs and Expenses:		
Selling, general, and administrative	1,975	3,463
Impairment charges	3,567	1,056
Interest expense	1,020	821
Depreciation and amortization	167	28
	6,729	5,368
Operating Loss	(5,630)	(5,150)
Other Income:		
Gain on sale of property and equipment	8	416
	8	416
Loss from Continuing Operations Before Federal Income Taxes and Equity in Net		
Loss of Affiliates	(5,622)	(4,734)
Federal income tax benefit	1,775	1,648
Loss from Continuing Operations Before Equity in Net Loss of Affiliates	(3,847)	(3,086)
Equity in net loss of affiliates, net of tax	(58)	(100)
Loss from Continuing Operations	(3,905)	(3,186)
Gain on sale of discontinued operation, net of tax	19,284	-
Income from discontinued operation, net of tax	2,048	3,200
Net Income	17,427	14
Less preferred stock dividends	(507)	(470)
Net Loss Applicable to Common Stock	\$ 16,920	\$ (456)
Net Income (Loss) Per Common Share—Basic and Diluted		
Continuing Operations	\$ (1.28)	\$ (1.06)
Discontinued Operations	6.18	0.93
Total	\$ 4.90	\$ (0.13)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

MAXCO, INC. AND SUBSIDIARIES

	Number of Common Shares Outstanding	Preferred Stock	Common Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Totals
			<i>(in thousands)</i>			
Balances at April 1, 2005	3,454	\$ 3,866	\$ 3,454	\$ (38)	\$ 1,683	\$ 8,965
Net income for the year					14	14
Unrealized gain on swap agreement				38		38
Comprehensive Income						52
Conversion of debt to preferred stock		1,250				1,250
Preferred stock dividends					(470)	(470)
Balances at March 31, 2006	3,454	5,116	3,454	-	1,227	9,797
Net income for the year					17,427	17,427
Preferred stock dividends					(507)	(507)
Redemption of preferred stock		(5,116)			(209)	(5,325)
Balances at March 31, 2007	3,454	\$ -	\$ 3,454	\$ -	\$ 17,938	\$ 21,392

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

MAXCO, INC. AND SUBSIDIARIES

	Year Ended March 31,	
	2007	2006
	<i>(in thousands)</i>	
Operating Activities		
Net income	\$ 17,427	\$ 14
Income from and gain on sale of discontinued operation	(21,332)	(3,200)
Loss From Continuing Operations	(3,905)	(3,186)
Amounts provided by discontinued operation	253	1,074
Adjustments to reconcile loss from continuing operations to net cash (used in) provided by operating activities:		
Loss on investments	3,567	1,056
Reserve against receivables	385	-
Depreciation	167	28
Equity in net loss of affiliates	58	100
Gain on sale of property and equipment	(8)	(416)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(82)	68
Prepaid expenses and other	(25)	(33)
Accounts payable and other current liabilities	(3,180)	1,529
Net Cash (Used in) Provided by Operating Activities	(2,770)	220
Investing Activities		
Proceeds from sale of subsidiary, net of funded debt and costs of sale	42,174	-
Purchase of building	(8,500)	-
Purchases of property and equipment	(287)	(16)
Advance to affiliate	(250)	-
Collections of notes receivable	184	192
Sale of property and equipment	-	1,113
Purchases of subsidiaries	-	(142)
Other	(62)	(42)
Net Cash Provided by Investing Activities	33,259	1,105
Financing Activities		
Redemption of preferred stock	(5,325)	-
Proceeds from other debt obligations	4,375	-
Net repayments on lines of credit	(1,950)	-
Repayments on other debt obligations	(2,973)	(1,475)
Net Cash Used in Financing Activities	(5,873)	(1,475)
Increase (Decrease) in Cash and Cash Equivalents	24,616	(150)
Cash and Cash Equivalents at Beginning of Year	1,488	1,638
Cash and Cash Equivalents at End of Year	\$ 26,104	\$ 1,488
Supplemental cash flows disclosure:		
Interest paid	\$ 2,352	\$ 843

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAXCO, INC. AND SUBSIDIARIES

Years Ended March 31, 2007 and 2006

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Maxco, Inc. (“Maxco” the “Company”) is a Michigan corporation incorporated in 1946. Maxco has investments in real estate and investments representing less than majority interests in the following businesses: a developer, manufacturer and marketer of microprocessor-based process monitoring and inspection systems for use in industrial manufacturing environments; and an energy-related business.

Operating Matters: The accompanying financial statements of Maxco as of and for the year ended March 31, 2006 have been restated as required by Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” to reflect Maxco’s wholly-owned subsidiary Atmosphere Annealing, Inc. (“AAI”) as a discontinued operation. On February 1, 2007, Maxco, Inc. sold substantially all of the assets of AAI and BCGW, Inc. (“BCGW”), the wholly owned subsidiary of AAI, pursuant to the terms of the Asset Sale and Purchase Agreement dated December 13, 2006 among Maxco, Inc., Quanex Technologies, Inc., Quanex Corporation, AAI, and BCGW (the “Transaction”)(see Note 12).

The Company has included the balance sheet and operating results of Capital Center Associates (“CCA”) in the accompanying financial statements as required by FASB Interpretation No. 46(R), “Consolidation of Variable Interest Entities,” due to Maxco’s guarantee of CCA’s debt, Maxco’s loan to CCA, and Maxco’s management control of CCA’s building (see Note 4).

Following the Transaction, Company operations now consist of rental and other income from the operations of Capital Center Associates and the Ledges real estate investment. In addition to its interest in certain real estate investments, the Company has investments in Integral Vision, Inc., Robinson Oil, and holds other miscellaneous assets.

On May 24, 2007 the board of directors of the Company declared a cash dividend of \$2.00 per share, payable June 29, 2007, to common shareholders of record as of June 20, 2007.

On May 31, 2007, through an odd-lot transaction, the Company repurchased common stock from certain shareholders who had owned fewer than 100 shares of Maxco stock. The repurchase of shares reduced the number of shareholders to under 300, thereby allowing the Company to terminate the registration of its common stock under the Securities Exchange Act of 1934. On June 8, 2007 the Company filed a Form 15 with the Securities and Exchange Commission to effect a termination of registration of its common stock.

Management intends to evaluate and potentially explore all available strategic and operational alternatives for the Company. Management will continue to work to maximize stockholder interests with a goal of returning value to the Company’s stockholders. Although the Company’s board of directors has not yet made any determination with respect to the ultimate direction of the Company, potential actions may include dissolution and liquidation of Maxco, Inc. or other transactions to maximize stockholder value and manage our outstanding liabilities.

The Company believes that the funds generated by the Transaction will be sufficient to meet its short term and long term debt service and other obligations, as well as to fund continuing operations for the reasonably foreseeable future.

Principles of Consolidation: The consolidated financial statements include the accounts of Maxco, Inc., its majority owned subsidiaries, and Capital Center Associates. Upon consolidation, all intercompany accounts and transactions are eliminated. All significant investments are accounted for under the equity method.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates include the allowance for doubtful accounts receivable, the valuation of equity method investments, and the fair value less costs to sell of real estate investments and building held-for-sale.

Reclassifications: Certain items in the prior year consolidated financial statements have been reclassified to conform with the presentation used in 2007.

Cash and Cash Equivalents: The Company considers cash and other highly liquid investments, including investments in interest bearing repurchase agreements with less than 90-day maturities, as cash and cash equivalents. Approximately \$25.9 million of the Company’s cash balance at March 31, 2007 exceeded insured FDIC limits.

Restricted Cash: At March 31, 2007, \$100,000 of restricted cash was held as collateral under a line of credit issued on behalf of the Company’s former workers’ compensation insurer. At March 31, 2006 the Company had restricted cash of \$750,000 held as collateral under its \$2.0 million debt facility. During fiscal 2007, the Company renegotiated this debt

facility to a \$1.75 million line of credit with no restricted cash collateral requirements.

Real Estate Investments Held For Sale: The Company has ownership interests in affiliated entities that hold commercial real estate. In addition, the Company has made cash advances, which are unsecured and bear interest, to these affiliates. The Company has implemented a plan to liquidate these investments and their underlying real estate holdings. The Company accounts for these real estate investments as held-for-sale in these consolidated financial statements. The carrying amount of \$2.4 million and \$627,000 at March 31, 2007 and 2006, respectively, represents the Company's portion of the estimated fair value, net of estimated costs to sell, of these real estate interests.

Real Estate Held for Sale: In May 2005, Maxco acquired the common stock of Ledges Commerce Park and as such, has recorded the assets acquired at their fair value and the liabilities assumed at the amount at which they are expected to be settled as of March 31, 2007.

Asset Valuation Reserve: At March 31, 2007 the Company recorded a general valuation allowance of \$2.0 million related to its real estate, real estate investments, and building held for sale in order to adjust the carrying value of these assets to their estimated fair values, less costs to sell.

Properties and Depreciation: Property and equipment used in conducting the Company's business are stated on the basis of cost and include expenditures for new equipment and those which materially extend the useful lives of existing facilities and equipment.

Expenditures for normal repairs and maintenance are charged to operations as incurred. Depreciation for financial reporting purposes is computed by the straight-line method based on the shorter of the useful lives or lease terms of the assets (10 to 40 years for buildings and 3 to 10 years for equipment).

Federal Income Taxes: The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("SFAS 109"), which requires the use of the liability method in accounting for income taxes. Under SFAS 109, deferred tax assets and liabilities are measured based on differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates and laws that will be in effect when differences are expected to reverse. 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. A valuation allowance is provided for net deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize their benefit, or future deductibility is uncertain.

Revenue Recognition: Rental revenue is recognized as earned on a straight-line basis over the lease term, regardless of when the rent payments are received. The difference between recognized rental income and rental cash receipts is recorded as either a receivable or a liability, as applicable, on the consolidated balance sheets. The Company believes its revenue recognition policy is appropriate and in accordance with generally accepted accounting principles.

Advertising: Advertising costs are expensed as incurred. The amounts were not material for either year presented.

Interest Rate Swap: The Company periodically enters into interest rate swap agreements to modify the interest characteristics of its outstanding debt. Since the Company applies hedge accounting pursuant to SFAS 133, as amended, changes in the fair value of the swap are reported as a component of other comprehensive loss. There were no interest rate swap agreements open at March 31, 2007.

Comprehensive Loss: The Company displays comprehensive loss in the Consolidated Statements of Stockholders' Equity.

Common Stock Options: The Company adopted SFAS No. 123 (Revised 2004), "*Share Based Payment*" ("SFAS No. 123R"), under the modified prospective transition method on January 1, 2006. SFAS No. 123R requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. Share-based compensation recognized under the modified-prospective transition method of SFAS No. 123R includes share-based compensation based on the grant-date fair value determined in accordance with the original provisions of SFAS No. 123, "*Accounting for Stock-Based Compensation*", for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value determined in accordance with SFAS No. 123R for all share-based payments granted after January 1, 2006. SFAS No. 123R eliminates the ability to account for the award of these instruments under the intrinsic value method proscribed by Accounting Principles Board ("APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and allowed under the original provisions of SFAS No. 123. Prior to the adoption of SFAS No. 123R, the Company accounted for its stock option plans using the intrinsic value method in accordance with the provisions of APB Opinion No. 25 and related interpretations.

The Company had no stock options outstanding at March 31, 2007.

NOTE 2 –RELATED PARTY TRANSACTIONS

Included in accounts and notes receivable are unsecured cash advances to officers, stockholders, and affiliates. Certain of these amounts, which totaled approximately \$423,000 at March 31, 2007, are non-interest bearing. The ultimate settlement of the balances is generally expected to be made in cash, although not necessarily within the next year.

In April 2004 the Company entered into an incentive agreement with the President of its formerly wholly-owned subsidiary Atmosphere Annealing, Inc. The agreement provided for compensation to the officer based on the increased value, as defined, of the subsidiary by March 31, 2006. The incentive is equal to 1% of the first \$25 million in value plus 10% above that base amount. As party to the agreement, Maxco, Inc. recognized incentive compensation expense on a pro-rata basis under the terms of the agreement. As of March 31, 2006, the amount accrued was \$2.0 million, including \$1.4 million charged to operations during the year then ended. In 2007 the Company charged an additional \$1.5 million of incentive compensation expense. The Company paid \$3.0 in incentive compensation to the officer in February 2007 using the proceeds from the sale of Atmosphere Annealing, Inc. An additional \$500,000 of incentive compensation is expected to be paid to the officer when \$5.0 million from the sale, which is held in escrow, is paid to the Company. These amounts held in escrow are anticipated to be received as follows: \$3.0 million in fiscal 2009 and \$2.0 million in fiscal 2010.

In June 2003, the Company assumed a lease with CJC Leasing, a limited liability company in which Max A. Coon, the Company's majority shareholder and chief executive officer, is a member, from Contractor Supply Incorporated, the purchaser of the Company's formerly wholly owned subsidiary, Ersco Corporation. Contractor Supply Incorporated was required under the lease to pay CJC Leasing an aggregate of approximately \$2.3 million in monthly installment payments over a period of approximately 4 years. In exchange for the Company assuming Contractors Supply Incorporated's lease payments to CJC Leasing, Contractors Supply Incorporated and the Company agreed to reduce the amount then owed by the Company to Contractor Supply Incorporated by \$2.3 million. The assumption of the lease obligations to CJC Leasing by the Company allowed the Company to retire a \$2.3 million debt that was otherwise due and payable to Contractors Supply Incorporated, by making monthly payments of the approximate \$2.3 million over four years. In June 2006, the Company paid off the obligation due CJC Leasing under this lease.

In February 2005, the Company issued 250,000 shares of restricted common stock of the Company to Contractor Supply Incorporated, and 95,800 shares of restricted common stock of the Company to Master Works Foundation, Inc. (a non-profit corporation in which the sole shareholder of Contractor Supply Incorporated is a one-third member) in exchange for further reduction of the amount owed by the Company to Contractor Supply Incorporated by \$1.4 million. The remaining Company debt owed to Contractor Supply Incorporated was subsequently assigned by Contractor Supply Incorporated to Ambassador Steel Corporation, and then by Ambassador Steel Corporation to its President, Daryle E. Doden. On September 30, 2005, Mr. Doden assigned this Company debt, approximating \$1.25 million, to EM Investors, LLC. EM Investors, LLC converted the Company payable, including all accrued interest, to 7,812.5 shares of the Company's series six preferred stock. Messrs. Coon and Cross, are managers, and have indirect ownership interests, of 39.08% and 8.35%, respectively, of EM Investors, LLC.

Included in accrued wages is \$119,000 and \$517,000 at March 31, 2007 and 2006, respectively, that is due Mr. Coon. Included in accounts payable is \$86,000 at March 31, 2006 that was due to entities in which Mr. Coon has an ownership interest.

NOTE 3 – INVESTMENT IN INTEGRAL VISION, INC.

At March 31, 2007, Maxco owned 2,410,183 shares of Integral Vision's common stock (aggregate market value of \$1.2 million as of March 31, 2007), representing approximately 8% of Integral Vision's total common stock outstanding.

In April 2005, Maxco converted \$95,684 of notes receivable from Integral Vision into 127,578 restricted shares of Integral Vision common stock. Maxco's investment in Integral Vision is accounted for under the equity method for all years presented, however due to the continued losses at Integral Vision, Maxco has discontinued writing down the investment based on its ownership percentage. Management periodically reviews the carrying value of this investment for impairment.

In March 2007, Maxco advanced Integral Vision \$250,000 to permit Integral Vision to meet its obligations. This loan, secured by payments received on certain orders, is evidenced by a written document and provided for interest at the rate of 10%.

Additionally, Maxco provided consulting services to Integral Vision. These services included assistance with financial statement preparation, compliance with governmental filing requirements, and assistance with certain financing arrangements. Prior to October 1, 2004, no charges were made by Maxco for the services to Integral Vision. Effective April 1, 2005 and through November 30, 2005, the Integral Vision began paying Maxco \$8,750 per month for each month such services were rendered. The amount received in fiscal 2007 and 2006 for such administrative services amounted to \$0 and \$70,000, respectively. Integral Vision's dependence on Maxco's services decreased and therefore on December 1, 2005, Integral Vision began compensating Maxco on an hourly basis.

Integral Vision had net losses of approximately \$2.9 million and \$3.0 million for the year ended March 31, 2007 and 2006, respectively. For the years ended March 31, 2007 and 2006, Integral Vision's sales were \$910,000 and \$232,000, respectively.

NOTE 4 – DEBT

On August 11, 2006 the Company renegotiated its \$2.0 million debt facility to a \$1.75 million line of credit that requires interest only payments and matures in August 2007. There were no outstanding draws on this facility at March 31, 2007. The Company had an outstanding balance of \$2.0 million on this facility at March 31, 2006. This facility, which is anticipated to be renewed, will be reduced to a \$500,000 line of credit.

On January 31, 2006, the Company sold its corporate office building and certain of its office furniture to an outside party for cash and a \$150,000 promissory note. The cash proceeds of \$750,000 were used to pay down the related debt facility. The promissory note is secured by a life insurance contract of which the Company has been named as the beneficiary.

A summary of the Company's debt obligations as of March 31 is as follows:

	2007	2006
	<i>(in thousands)</i>	
Short term obligations:		
Notes payable (various interest rates)	\$ -	\$ 1,414
	-	1,414
Long term obligations:		
Mortgage note payable (various variable interest rates)	\$ 4,313	\$ 1,950
Contingent liability	1,761	-
Equipment purchase contracts (various interest rates)	-	1,940
Subordinated debt (fixed rate of 10.00%)	-	346
	6,074	4,236
Less current maturities	89	3,120
	\$ 5,985	\$ 1,116

¹ At March 31, 2007 the prime rate was 8.25%.

On November 14, 2002, Maxco completed an agreement to sell its wholly owned subsidiary, Ersco Corporation to Contractor Supply Incorporated for cash and retired certain other debt of Maxco in excess of the sale price resulting in a short term note payable to the purchaser of approximately \$4.1 million. In June 2003 the Company agreed to assume a lease from Contractor Supply Incorporated and as a result, reduced the amount owed to Contractor Supply Incorporated by \$2.3 million and the Company has recorded the \$2.3 million obligation to the leasing company as a long term obligation in the accompanying financial statements. In June 2006, the Company paid off the obligation due CJC Leasing under this lease.

In February 2005, Maxco issued 250,000 shares of common stock valued at \$4 per share to Contractor Supply Incorporated to further reduce the Company's obligation to Contractor Supply Incorporated. The remaining Company debt owed to Contractor Supply Incorporated was subsequently assigned by Contractor Supply Incorporated to Ambassador Steel Corporation, and then by Ambassador Steel Corporation to its President, Daryle E. Doden. On September 30, 2005, Mr. Doden assigned this Company debt, approximating \$1.25 million, to EM Investors, LLC. EM Investors, LLC converted the Company payable, including all accrued interest, to 7,812.5 shares of the Company's series six preferred stock. The series six preferred stock was redeemed by the Company in March 2007.

The Company's weighted average short-term borrowing rate was 10.3% at March 31, 2006. The Company had no short term interest bearing liabilities at March 31, 2007.

Notes and contracts payable are generally collateralized by assets purchased with proceeds of the borrowings. The aggregate principal maturities of long-term debt are approximately \$89,000 in 2008, \$98,000 in 2009, \$107,000 in 2010, \$118,000 in 2011, and \$5.7 million thereafter.

Maxco had provided the guarantee of certain debt obligations of certain real estate and other investments in an aggregate

amount of approximately \$2.0 million as of March 31, 2005. Maxco, as guarantor, in May 2005 agreed to purchase, through a subsidiary, the real estate secured by the Ledges land and buildings. As a result of this purchase a \$1.8 million liability, which had been guaranteed by the Company, was assumed directly by the Company and is now included in long term debt in the accompanying balance sheet. At March 31, 2006, this debt balance approximated \$1.2 million as proceeds from the sale of three condominium units were used to reduce the outstanding debt balance accordingly. In February 2006, the remaining guarantee of \$125,000 was repaid as a result of the sale of the underlying asset. Consequently, no guarantees remained as of March 31, 2006. In August 2006 the Company refinanced its Ledges land and building. The proceeds were used to repay the existing debt obligation and to fund other working capital requirements. The balance of this note is approximately \$1.6 million at March 31, 2007. The note, secured by a mortgage and an assignment of certain rents and leases, calls for Ledges to make 59 regular monthly payments of \$16,900 and one irregular payment of \$1.3 million on August 10, 2011.

Settlement Agreement Resolution

Effective October 27, 2005, the Company entered into a Settlement Agreement with American Realty Equities, Inc. ("ARE"), Capital Center Associates, LLC, ("CCA"), L/M Associates, LLC ("L/M") and Mr. Coon relating to property and the related mortgage on such property owned by CCA. CCA is majority owned by L/M which is 50% owned by Maxco, Inc.

The Settlement Agreement relates to a promissory note dated February 21, 2001, which was in default and guaranteed by Mr. Coon and others. ARE purchased the interest of Charter One Bank as lender of the promissory note which was in the original principal amount of approximately \$10 million. On August 11, 2005, the Company agreed to indemnify Mr. Coon for any amounts he would be required to pay as result of personal guarantees he had on the Company's real estate entities that were made for the sole benefit of the Company. ARE commenced an action in March 2005 to foreclose the construction mortgage and an action to enforce the guarantee against Mr. Coon and the other guarantors.

Without admitting any liabilities or fault, and to avoid the expense and uncertainties of litigation, the parties settled the litigation as detailed in the Settlement Agreement.

In summary, the Settlement Agreement stated that the total amount to be paid to ARE was \$8.5 million if paid on or before September 1, 2006.

On August 30, 2006 payment was made to ARE as required under the Settlement Agreement. To pay this commitment to ARE, the Company was party to the following agreements:

1. On August 30, 2006, Maxco, Inc. guaranteed a Mortgage Loan Agreement (the "Agreement") for \$2,775,000 between The Huntington National Bank ("HNB") and CCA. In addition to Maxco, Inc., other guarantors named are L/M and Mr. Coon. The Agreement, which is secured by a first mortgage on a commercial building in Lansing, Michigan ("CCA Building"), calls for CCA to make 60 monthly payments of principal and interest of \$22,364 plus a final payment of the remaining principal and any accrued interest on September 15, 2011 to HNB. Maxco, Inc. and the other guarantors would be liable for payment to HNB should CCA default. At March 31, 2007 the principal balance on this mortgage was approximately \$2.7 million.
2. The Company's wholly-owned subsidiary, AAICO, Inc. (formerly known as Atmosphere Annealing, Inc.), as part of refinancing of its debt with its principal lender, provided the Company with \$5,761,333 as part of an intercompany demand note toward fulfilling the commitment to ARE. The \$5,761,333, which was advanced under loan agreements with AAICO, Inc.'s principal lender, was collateralized by certain assets of AAICO, Inc. including real estate and equipment. As a result of the sale of the operating assets of Atmosphere Annealing, Inc., this amount was repaid on February 2, 2007.
3. On August 30, 2006, CCA, L/M and the Company agreed that the Company loan the \$5,761,333 to CCA to fulfill the commitment to ARE. The loan to CCA by the Company is evidenced by a demand note, secured by a second mortgage on the CCA Building in favor of the Company, and guaranteed by L/M. As a result of the sale of the operating assets of Atmosphere Annealing, Inc., this amount was repaid on February 2, 2007.

As a result of the settlement, the Company has included the balance sheet and operating results of CCA in the accompanying financial statements since the date of acquisition effective August 30, 2006 (See Note 1).

Indemnification Matters

The Company agreed to indemnify Mr. Coon for any amount he would be required to pay for a \$1.8 million guarantee resulting from the sale of its major real estate portfolio. Since the Company is presently paying the interest related to this debt and will in all likelihood control the disposition of the underlying asset, the Company has recorded the asset value of \$1.8 million and the \$1.8 million obligation in the accompanying financial statements at March 31, 2007.

NOTE 5 – PREFERRED STOCK

Effective March 31, 2007, the Company redeemed all outstanding shares of preferred stock, including accrued dividends. The face value of the preferred stock and accrued dividends aggregated approximately \$7.7 million, of which approximately \$5.9 million had been held by related parties.

Maxco may issue up to 100,000 shares of preferred stock with terms determined by Maxco's Board of Directors.

NOTE 6 – COMMON STOCK OPTIONS

Effective May 30, 2007 the Company terminated its stock option plans. There were no stock options outstanding and exercisable at March 31, 2007. There were no options granted during either of the years ended March 31, 2007 or 2006.

NOTE 7 – 401(K) EMPLOYEE SAVINGS PLANS

Company contributions charged to operations under the 401(K) employee savings plans were approximately \$11,000 and \$10,000 for the years ended March 31, 2007 and 2006, respectively.

NOTE 8 – FEDERAL INCOME TAXES

Federal income taxes consist of the following components:

	Year Ended March 31,	
	2007	2006
	<i>(in thousands)</i>	
Current benefit	\$ (1,775)	\$ (1,648)
Deferred	-	-
	(1,775)	(1,648)
Amount allocated to income from and gain on sale of discontinued operations	11,485	1,648
	\$ 9,710	\$ -

The reconciliation of the income taxes computed at the United States federal statutory tax rate to income tax expense (benefit) reported in these financial statements is as follows:

	Year Ended March 31,	
	2007	2006
	<i>(in thousands)</i>	
Income tax expense (benefit) computed at United States statutory rate (35% in 2007, 34% in 2006)	\$ (1,968)	\$ (1,610)
Increase (reduction) in deferred tax asset valuation allowance	102	(685)
Other	91	647
	\$ (1,775)	\$ (1,648)

In June 2007, the Company paid \$10.0 million in estimated federal income taxes for the year ended March 31, 2007. During fiscal year 2006, the Company paid \$12,000 in federal AMT for the year ended March 31, 2005.

The Company assumed the utilization of net operating loss carryforwards to offset federal taxable income in fiscal 2006. The Company amended its March 31, 2002 Federal income tax return to reflect the write offs of its investment in its discontinued affiliate, Foresight, Inc.'s stock, amounts the Company was required to pay as guarantor of Foresight's banking agreement, and certain other advances to Foresight. As a result of this amendment, the Company received a federal income tax refund of approximately \$790,000. An Internal Revenue Service (IRS) audit of the Company has been completed and the Company is engaged in ongoing discussions with the appeals division of the IRS on the Foresight issue. The Company anticipates this process to be completed in the near future. The Company estimates that approximately \$440,000 of the refund previously received from the IRS will be retained by the Company when the appeals process is completed and has reduced federal income tax expense for the year ended March 31, 2007, accordingly.

During fiscal 2007, the Company utilized approximately \$2.9 million of NOL carryforwards and \$1.7 million of capital loss carryforwards which, along with other temporary differences, led to an increase of \$102,000 of the deferred income tax valuation allowance. During fiscal 2006, the Company utilized approximately \$727,000 of NOL carryforwards which, along with other temporary differences, led to a reduction of \$685,000 of the deferred income tax valuation allowance. The following table summarizes changes in the deferred tax valuation allowance:

	Year Ended March 31,	
	2007	2006
	<i>(in thousands)</i>	
Beginning balance	\$ 2,669	\$ 3,354
Charged (credited) to costs and expenses	102	(685)
Ending balance	\$ 2,771	\$ 2,669

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the

Company's deferred tax liabilities and assets were as follows as of March 31:

	2007	2006
	<i>(in thousands)</i>	
Deferred Tax Liabilities:		
Depreciation	\$ -	\$ 1,930
Total Deferred Tax Liabilities	-	1,930
Deferred Tax Assets:		
Net operating loss carryforwards	-	1,995
Net cumulative asset impairment losses	2,484	1,520
Wages/incentives not paid	170	1,003
Allowance for doubtful accounts	-	61
Other	117	20
Total Deferred Tax Assets	2,771	4,599
Valuation Allowance for Deferred Tax Assets	2,771	2,669
Net Deferred Tax Assets	-	1,930
Net Deferred Tax Assets (Liabilities)	\$ -	\$ -

NOTE 9 – OTHER INVESTMENTS

The Company's building, real estate, and real estate investments held for sale are comprised of the following:

	March 31,	
	2007	2006
	<i>(in thousands)</i>	
Building held for sale	\$ 6,500	\$ -
Real estate held for sale	2,853	2,900
Real estate investments held for sale	2,350	627
	11,703	3,527
Valuation allowance	(2,000)	-
	\$ 9,703	\$ 3,527

Building Held For Sale:

The Company has included the balance sheet and operating results of Capital Center Associates (“CCA”) in the accompanying financial statements as required by FASB Interpretation No. 46(R), “Consolidation of Variable Interest Entities,” due to Maxco’s guarantee of CCA’s debt, Maxco’s loan to CCA, and Maxco’s management control of CCA’s building (see Note 4). An impairment charge of \$1.4 million was recognized during the year ended March 31, 2007 to reduce the carrying value of the building to its estimated fair value less costs to sell.

Real Estate Held for Sale:

In May 2005, Maxco acquired the common stock of Ledges Commerce Park and as such, has recorded the assets acquired at their estimated fair value and the liabilities assumed at the amount at which they are expected to be settled as of March 31, 2007.

Real Estate Investments Held For Sale:

Maxco has effective ownership interests ranging from 31-50% in primarily two LLC’s that have been involved in the development and ownership of real estate in central Michigan. In 2003, the Company’s affiliated entity, L/M Associates II, sold substantially all of the properties in its real estate portfolio. Pursuant to the terms of the sale agreement, in July 2004, L/M Associates (L/M) exercised its option to require the managing member of the acquiring entity to repurchase L/M’s 16% interest in the acquiring entity. To date this requirement has not been satisfied and L/M Associates is working with the managing member of the acquiring entity to resolve this issue. In addition, the managing member of the acquiring entity, during the fourth quarter of fiscal 2006, listed the applicable properties for sale with a major real estate firm.

In May 2005, Maxco purchased an entity which owns two buildings from L/M Associates. The debt associated with this transaction was approximately \$1.8 million which was previously identified as guaranteed debt. Any risks on guarantees that Maxco has estimated would be required to be paid by Maxco have been recorded in the accompanying financial statements and Maxco’s investment has been adjusted to the net realizable value of the remaining assets. In February 2006, the remaining guarantee of \$125,000 was repaid as a result of the sale of the underlying asset. Consequently, no guarantees remain as of March 31, 2007.

Asset Valuation Allowance:

At March 31, 2007 the Company recorded a valuation allowance of \$2.0 million related to its investments in real estate and building held for sale.

Technology Related:

In addition to its investment in Integral Vision, Inc., the Company has an equity interest in Provant, Inc. On March 11, 2004 Provant completed the sale of substantially all of its remaining assets and is in the process of final liquidation. In fiscal 2007 the Company wrote off its investment in Provant, Inc., resulting in a charge of approximately \$2,000.

Energy Related:

Maxco has a 50% ownership interest in Robinson Oil Company, LLC ("Robinson"), which is in the business of acquiring and developing oil and gas interests. Impairment charges totaling \$30,000 were recognized during the year ended March 31, 2006 to reduce the carrying value of the Company's investment in Robinson to its estimated fair value at that time. In November 2006 the Company received a \$75,000 distribution from Robinson and reduced the carrying value of the investment to zero as of March 31, 2007, resulting in a credit of \$14,000.

Other:

Maxco has a 36% equity interest in Phoenix Financial Group, LTD and its subsidiary Cambridge Group Investments, LTD, dba Bondpage.com ("Cambridge"), a registered broker-dealer of securities that is primarily focused on the trading of fixed income investments over the Internet. On January 29, 2007, Cambridge agreed to sell certain assets, including its website, Bondpage.com. Management does not anticipate receiving any proceeds from the sale. As a result, in fiscal 2007, the Company wrote off this investment, resulting in a charge of approximately \$192,000.

In summary, the Company recorded the following charges to recognize declines in the value of its investments that were deemed other than temporary:

	Year Ended March 31,	
	2007	2006
	<i>(in thousands)</i>	
Building held for sale	\$ 1,373	\$ -
Robinson Oil	-	30
Phoenix Financial	192	226
Real estate	-	800
Provant	2	-
Real estate investments' valuation allowance	2,000	-
	<u>\$ 3,567</u>	<u>\$ 1,056</u>

A significant portion of these adjustments were recorded during the fourth quarter of each of these fiscal years, and in total served to increase the net loss per share by \$1.03 and \$0.31 in 2007 and 2006, respectively.

The components of the real estate investments held for sale is summarized as follows:

	March 31,	
	2007	2006
	<i>(in thousands)</i>	
Capital Center Associates building ¹	\$ -	\$ 7,700
Capital Center Associates obligation ¹	-	(8,500)
Michigan Equities Investment Properties, net	2,350	1,427
	<u>\$ 2,350</u>	<u>\$ 627</u>

¹ In August 2006, The Company has included the balance sheet and operating results of CCA in the accompanying financial statements due to Maxco's guarantee of CCA's debt, Maxco's loan to CCA, and Maxco's management control of CCA's building (see Note 4).

The composition of the net carrying value of non-real estate related investments is summarized as follows:

	March 31,	
	2007	2006
	<i>(in thousands)</i>	
Integral Vision	\$ 377	\$ 377
Phoenix Financial	-	250
Robinson Oil	-	61
	<u>\$ 377</u>	<u>\$ 688</u>

The unaudited results of operations and financial position of the Company's significant unconsolidated non-real estate affiliate are summarized below:

	Technology Related	
	March 31,	
	2007	2006
	<i>(in thousands)</i>	
Condensed income statement information:		
Net sales	\$ 910	\$ 232
Gross margin	201	(249)
Net loss	(2,922)	(3,024)
Condensed balance sheet information:		
Current assets	\$ 646	\$ 2,400
Non-current assets	315	189
	<u>\$ 961</u>	<u>\$ 2,589</u>
Current liabilities	\$ 1,724	\$ 575
Non-current liabilities	378	378
Stockholders' equity (deficit)	(1,141)	1,636
	<u>\$ 961</u>	<u>\$ 2,589</u>

The results of operations and financial position for the Company's energy related affiliate are not significant.

NOTE 10 – CONTINGENCIES AND COMMITMENTS

The Company is involved in various lawsuits and other claims arising in the ordinary course of business. While the results of these matters cannot be predicted with certainty, management, upon advice from legal counsel, believes that losses, if any, arising from these proceedings will not have a material adverse effect on the Company's consolidated financial statements.

NOTE 11 – INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted loss per share:

	Year Ended March 31,	
	2006	2005
	<i>(in thousands except per share data)</i>	
Numerator:		
Loss from continuing operations	\$ (3,905)	\$ (3,186)
Income from discontinued operation	21,332	3,200
Net income	17,427	14
Preferred stock dividends	(507)	(470)
Numerator for basic and diluted earnings per share—		
income (loss) available to common stockholders	\$ 16,920	\$ (456)
Denominator:		
Denominator for basic and diluted earnings per share--		
weighted average shares	3,454	3,454
Basic and Diluted Loss Per Share		
Continuing operations	\$ (1.28)	\$ (1.06)
Discontinued operation	6.18	0.93
	<u>\$ 4.90</u>	<u>\$ (0.13)</u>

NOTE 12 – SALE OF ATMOSPHERE ANNEALING, INC.

On February 1, 2007, Maxco, Inc. sold substantially all of the assets of Atmosphere Annealing, Inc. (“AAI”), the wholly owned subsidiary of Maxco, Inc., and BCGW, Inc. (“BCGW”), the wholly owned subsidiary of AAI, pursuant to the terms of the Asset Sale and Purchase Agreement dated December 13, 2006 among Maxco, Inc., Quanex Technologies, Inc., Quanex Corporation, AAI, and BCGW.

MACSTEEL Atmosphere Annealing, Inc. (formerly known as Quanex Technologies, Inc.), a wholly owned subsidiary of Quanex Corporation, acquired substantially all of the operating assets of AAI and BCGW for \$57.5 million in cash (the “Transaction”), net of an adjustment for the estimated net working capital of AAI as of January 31, 2007. There were two escrows established from the sale proceeds. An escrow of \$2.0 million is to last for a minimum of 3 years and up to 4 years, depending on satisfaction of certain conditions, to assure compliance with our environmental warranties. An escrow of \$3 million is to be held for 18 months to assure the accuracy of representations and warranties, including any environmental claims that exceed the \$2 million environmental escrow. Other than the assumption of normal operating liabilities, MACSTEEL Atmosphere Annealing, Inc. did not assume any liabilities for borrowed money or certain other liabilities including certain product liabilities, tax and environmental liabilities. Assets excluded from the transaction included cash, cash equivalents, certain corporate records, all tax benefits and rights to refunds, all rights relating to borrowed money, related party receivables, and all rights to prepaid insurance and insurance deposits.

As part of the closing of the Transaction, certain outstanding liabilities secured by the assets of AAI and BCGW were required to be paid, which were approximately \$10.9 million. In addition, the Company estimates that net federal and state income taxes will be approximately \$11.0 million, and closing costs and other costs and obligations in connection with the closing will be approximately \$5.2 million.

The results of operations of AAI for the ten months ended January 31, 2007 and the year ended March 31, 2006 were as follows:

	Ten Months Ended January 31, 2007	Year Ended March 31, 2006
	<i>(in thousands)</i>	
Net sales	\$ 36,777	\$ 46,564
Cost of sales and operating expenses	22,319	29,110
Selling, general, and administrative	7,956	8,874
Depreciation and amortization	2,611	3,065
	32,886	41,049
Operating profit	3,891	5,515
Interest expense	739	668
Interest income	(2)	-
Loss (Gain) on sale of assets	4	(1)
Other gain	-	-
Earnings before income taxes	3,150	4,848
Income tax provision	1,102	1,648
Net income	\$ 2,048	\$ 3,200
Gain on sale of business assets (net of tax)	19,284	-
Total income	\$ 21,332	\$ 3,200

The results of operations for this unit have been reported separately as a discontinued operation in the consolidated statements of operations for the current and corresponding prior periods.

NOTE 13 – SUBSEQUENT EVENTS

On February 27, 2007, the Company received a notice from the Nasdaq Stock Market indicating that the Company was not in compliance with the Nasdaq Stock Market’s requirements for continued listing due to the completion of the sale on February 1, 2007 of substantially all assets of the Company’s wholly owned subsidiary Atmosphere Annealing, Inc. and its wholly

owned subsidiary BCGW, Inc. As a result of the sale, the Company no longer has an operating business. The Nasdaq staff deemed the Company to be a public shell, raising public interest concerns under Marketplace Rule 4300. On March 2, 2007 the Company requested a hearing before a Nasdaq Listing Qualification Panel to review the Staff Determination as Nasdaq rules permit. On April 18, 2007 the Company received a notice from the Nasdaq Stock Market denying the Company's request for continued listing on the Nasdaq Stock Market. Accordingly, the listing of the Company's common shares were suspended from the Nasdaq Stock Market effective at the open of business on Friday, April 20, 2007. The Company is now listed on the "Pink Sheets."

On May 24, 2007 the board of directors of the Company declared a cash dividend of \$2.00 per share, payable June 29, 2007, to common shareholders of record as of June 20, 2007.

Effective May 30, 2007 the Company terminated its stock option plans.

On May 31, 2007, through an odd-lot transaction, the Company repurchased common stock from certain shareholders who had owned fewer than 100 shares of Maxco stock. The repurchase of shares reduced the number of shareholders to under 300, thereby allowing the Company to terminate the registration of its common stock under the Securities Exchange Act of 1934. On June 8, 2007 the Company filed a Form 15 with the Securities and Exchange Commission to effect a termination of registration of its common stock.

In June 2007, the Company paid \$10.0 million in estimated federal income taxes for the year ended March 31, 2007.