



**Financial Statements of Maxco, Inc. and Subsidiaries**

**For The Quarter Ended December 31, 2009 and 2008**

**MAXCO, INC. AND SUBSIDIARIES**  
**Financial Statements**

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CONSOLIDATED STATEMENT OF NET ASSETS IN LIQUIDATION AS OF DECEMBER 31, 2009  
AND AS OF MARCH 31, 2009

MAXCO, INC. AND SUBSIDIARIES

	December 31, 2009	March 31, 2009
	<i>(unaudited)</i>	
	<i>(in thousands)</i>	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,719	\$ 3,638
Restricted cash	406	525
Cash held in escrow	2,000	2,000
Notes receivable	2,743	1,267
Prepaid expenses and other	85	92
<b>Total Current Assets</b>	6,953	7,522
Building, real estate, and real estate investments held for sale, net of reserve of \$400,000 at December 31, 2009 and at March 31, 2009	1,356	1,374
Recoverable income tax	3,900	3,900
Investments	145	290
Notes receivable - non current	-	150
Other	317	363
Property and equipment, net	28	31
<b>Total Assets</b>	\$ 12,699	\$ 13,630
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 24	\$ 274
Taxes, interest, and other liabilities	238	293
Accrued liquidation costs	1,240	1,750
Current maturities of long-term obligations	158	158
<b>Total Current Liabilities</b>	1,660	2,475
<b>Long-Term Obligations, Less Current Maturities</b>	400	516
<b>Total Liabilities</b>	2,060	2,991
<b>Net Assets liquidation basis</b>	\$ 10,639	\$ 10,639

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE PERIOD OCTOBER 1, 2008 TO DECEMBER 4, 2008  
AND APRIL 1, 2008 TO DECEMBER 4, 2008 (GOING CONCERN BASIS, UNAUDITED)

MAXCO, INC. AND SUBSIDIARIES

	<b>For the Period October 1, 2008 to December 4, 2008</b>	<b>For the Period April 1, 2008 to December 4, 2008</b>
<i>(In thousands, except per share data)</i>		
<b>Revenue and Gains:</b>		
Rental income	\$ 162	\$ 600
Interest income	9	132
	<u>171</u>	<u>732</u>
<b>Costs and Expenses:</b>		
Selling, general, and administrative	239	927
Interest expense	79	330
Depreciation and amortization	54	216
	<u>372</u>	<u>1,473</u>
<b>Loss Before Federal Income Taxes</b>	<b>(201)</b>	<b>(741)</b>
Federal income tax benefit	-	-
<b>Net Loss</b>	<b>(201)</b>	<b>(741)</b>
<b>Net Loss Per Common Share—Basic and Diluted</b>	<b>\$ (0.06)</b>	<b>\$ (0.23)</b>

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS FOR THE PERIOD APRIL 1, 2009 THROUGH DECEMBER 31, 2009 (LIQUIDATION BASIS)**

**MAXCO, INC AND SUBSIDIARIES**

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	<i>(in thousands)</i>
<b>Net assests in liquidation as of April 1, 2009</b>	<b>\$ 10,639</b>
Liquidation basis adjustments:	
Adjust assets and liabilities to estimated liquidation value	-
<b>Net assests in liquidation as of December 31, 2009</b>	<b>\$ 10,639</b>

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See notes to consolidated statements

CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE PERIOD APRIL 1, 2008 THROUGH DECEMBER 4, 2008 (GOING CONCERN BASIS, UNAUDITED)

MAXCO, INC. AND SUBSIDIARIES

	<b>For the Period April 1, 2008 to December 4, 2008</b>
	<i>(in thousands)</i>
<b>Operating Activities</b>	
Net loss	\$ (741)
Adjustments to reconcile net loss from to net cash provided by (used in) operating activities:	
Depreciation	216
Changes in operating assets and liabilities which provided (used) cash:	
Collection of cash held in escrow	3,000
Recoverable income taxes	(841)
Prepaid expenses and other	(6)
Accounts payable and other current liabilities	(476)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>1,152</b>
<b>Investing Activities</b>	
Purchase of vehicle	(33)
Investment made in real estate	2
Additions to note receivable, net	(575)
Purchase of treasury shares	(8)
<b>Net Cash Provided by Investing Activities</b>	<b>(614)</b>
<b>Financing Activities</b>	
Repayments on other debt obligations	(144)
<b>Net Cash Used in Financing Activities</b>	<b>(144)</b>
Decrease in cash and cash equivalents	394
Cash and cash equivalents at beginning of period	4,315
Cash and cash equivalents at end of period	\$ 4,709
Supplemental cash flows disclosure:	
Interest paid	330
Taxes paid (federal and state)	

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### MAXCO, INC. AND SUBSIDIARIES

#### **NOTE 1 – BUSINESS**

**Nature of Business:** Maxco, Inc. (“Maxco” the “Company”) is a Michigan corporation incorporated in 1946. On February 1, 2007, Maxco sold substantially all of the assets of Atmosphere Annealing, Inc. (“AAI”) which was Maxco’s last 100% owned operating subsidiary. Currently, Maxco holds investments in real estate, a \$2.0 million escrow remaining from the sale of AAI and other miscellaneous assets including a tax carryback of approximately \$3.9 million which Maxco will apply against the tax paid on the gain on the sale of AAI. Miscellaneous assets include approximately 2.4 million common shares of Integral Vision, Inc., a developer, manufacturer, and marketer of flat panel display inspection systems which ensure product quality in the display manufacturing process and notes receivable, certain of which are due from related parties.

The Company has included the financial results of Capital Center Associates (“CCA”) in the consolidated statement of operation for the prior period of October 1, 2008 to December 4, 2008 and April 1, 2008 to December 4, 2008 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 prior to the sale of CCA’s building in December 2008.

Following the sale of AAI, Company operations consisted only of rental and other income from the operations of CCA, whose building was sold on December 24, 2008, and Maxco’s Ledges Commerce Park, Inc. (“Ledges”) real estate investment. The Company believes that the funds generated by the sale of AAI and cash generated from the disposal of its remaining assets will be sufficient to meet its short term and long term debt service and other obligations, as well as to fund the cost of Maxco’s wind down operations.

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.

**Basis of Presentation:** The Company’s Board of Directors concluded in a meeting held September 18, 2008 that the implementation of a Formal Plan of Complete Dissolution and Liquidation is in the best interest of the Company and its shareholders. Subsequently, the Plan was submitted to Maxco’s shareholders as of October 28, 2008 for approval at the Company’s annual meeting held on December 4, 2008. The Plan of Complete Dissolution and Liquidation was approved by the shareholders at the annual meeting.

As a result of the adoption of the Plan of Complete Dissolution and Liquidation, Maxco activities are now limited to: selling, collecting or otherwise realizing the value of its remaining assets; making tax and other regulatory filings; winding down the Company’s remaining business activities; paying (or adequately providing for the payment) of valid creditor claims and obligations; and making liquidation distribution(s) to Maxco shareholders.

Management’s goal is to substantially have all assets liquidated by March 31, 2010. Payroll and related costs and other expenses are expected to occur through September of 2010, in order to complete all required regulatory filings and required audits. Accordingly, estimated expenses anticipated to occur from April 1, 2009 through December 31, 2010 have been accrued in the Consolidated Statement of Net Assets as of March 31, 2009 prepared on a liquidation basis. There have been no significant change in the estimated net expenses anticipated to occur from April 1, 2009 through December 31, 2010.

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition through February 3, 2010, the date the financial statements were issued.

#### ***Liquidation Basis of Accounting***

As a result of The Company’s shareholders’ approval of the Plan of Complete Dissolution, the Company adopted the liquidation basis of accounting effective December 5, 2008. This basis of accounting is considered appropriate when, among other things, liquidation of a company is probable and the net realizable values of assets are reasonably determinable. Under this basis of accounting, assets are valued at their net values and liabilities are stated at their estimated settlement amounts. The conversion from the going concern to liquidation basis of accounting required management to make significant estimates and judgments to record assets at estimated net realizable value and liabilities at estimated settlement amounts. These estimates are subject to change based upon the timing of potential sales and further deterioration of the market.

#### ***Going Concern Basis of Accounting***

The consolidated financial statements for the period from April 1, 2008 to December 4, 2008 were prepared on the going concern basis of accounting, which contemplates realization of assets and satisfaction of liabilities in the normal course of business. In the opinion of Management, the accompanying Consolidated Statement of Operations and Cash Flows contain all adjustments, including normal recurring adjustments, necessary to present fairly the results of operations and changes in cash flows for the period April 1, 2008 through December 4, 2008 on a going concern basis.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company will continue to incur operating costs and receive income on its investments and cash and cash equivalents throughout the liquidation period. On a regular basis management evaluate assumptions, judgment and estimates that can have a significant impact on reported net assets in liquidation based on the most recent information available to us, and when necessary make changes accordingly. Actual costs and income may differ from estimates, which might reduce net assets available in liquidation to be ultimately distributed to shareholders.

**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 reported amounts of assets and liabilities, as well as the reported amounts of changes in net assets. The estimates also affect the reported estimated value of net realizable assets and settlement of liabilities for litigation and other contingencies. The Company bases its estimates on historical experience, current and expected conditions and various other assumptions that are believed to be reasonable under the circumstances. The results of which forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

### **Accrued Cost of Liquidation**

The Company is required to make significant estimates and exercise judgment in determining accrued liquidation costs. The Company reviewed all operating expenses and contractual commitments such as payroll and related expenses, lease termination costs, professional fees, and other outside services to determine the estimated costs to be incurred during the liquidation period. The payroll and related expenses as well as all other expenses are principally expected to occur through September of 2010. The accrued costs expected to be incurred in liquidation and recorded payments since March 31, 2009 made related to the accrued liquidation costs are as follows:

<b>Accrued Liquidation Costs</b>	<b>As Booked March 31, 2009</b>	<b>Adjustments to Reserve</b>	<b>Payments</b>	<b>Balance at December 31, 2009</b>
Payroll related costs	\$ 800		\$ (289)	\$ 511
Contractual commitments	80		(31)	49
Professional services	190		(95)	95
Insurance, taxes and other	680		(95)	585
<b>Total</b>	<b>\$ 1,750</b>	<b>\$ -</b>	<b>\$ (510)</b>	<b>\$ 1,240</b>

### **New Accounting Pronouncement:**

Although other new accounting pronouncements were issued during the first quarter of fiscal 2010, the following pronouncement was applied to the Company when considering the liquidation basis for accounting.

#### *SFAS No. 165*

In May 2009, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 165, “Subsequent Events.” This Statement establishes general standards of accounting for and disclosures of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009 and as such, the Company applied this Statement in its liquidation presentation beginning in the first quarter of fiscal 2010. SFAS No. 165 did not materially impact the Company’s consolidated financial statements.

**Cash and Cash Equivalents:** The Company considers cash and other highly liquid investments, with less than 90-day maturities, as cash and cash equivalents. Cash and cash equivalents are stated at cost which approximates liquidation value. The majority of cash and cash equivalents were federally insured.

**Revenue Recognition:** Rental real estate revenue on a going concern basis through December 4, 2008, was 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 was 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.

### **NOTE 3 – DELISTING OF MAXCO FROM NASDAQ AND GOING PRIVATE TRANSACTIONS**

As a result of the sale of AAI, Maxco was delisted on April 20, 2007 from NASDAQ. Maxco common stock is now electronically quoted and traded on the Pink Sheets over-the-counter (OTC) Market. On May 31, 2007, through an odd-lot transaction, the Company repurchased 4,396 common shares from certain shareholders who had owned fewer than 100 shares of Maxco stock. The repurchase of shares reduced the number of shareholders of record to fewer than 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.

### **NOTE 4 – CASH HELD IN ESCROW AND RESTRICTED CASH**

**Cash Held in Escrow:** At December 31, 2009 and March 31, 2009 cash held in escrow represents \$2.0 million due Maxco from the sale of AAI.

Subsequent to December 31, 2009, Maxco's escrow agent was authorized by the purchaser of AAI to release to Maxco the cash held in escrow. These funds were received by the Company on February 1, 2010.

**Restricted Cash:** The Company provided cash security which totaled \$406,000 at December 31, 2009 and \$498,000 at March 31, 2009 to a bank for a loan made to Maxco's President, Max A. Coon. At March 31, 2009 the Company also had restricted cash of \$25,000 held as collateral under a letter of credit issued on behalf of the Company's former worker's compensation insurer. As of July 2009, the insurer no longer requires this letter of credit.

In addition, \$2.0 million of cash at March 31, 2009 was pledged to facilitate the sale of the Company's 110 W. Michigan Avenue building owned by CCA. This pledge was no longer required by the bank as of July 2009.

Subsequent to December 31, 2009, the Company authorized, per request of the bank, payoff of the Mr. Coon's note using the secured funds and increased the note receivable from Mr. Coon accordingly. As of February 1, 2010, the date of this payoff no cash of the Company is restricted.

### **NOTE 5 – RELATED PARTY TRANSACTIONS**

Notes receivable at December 31, 2009 include approximately \$1,400,000 from Max A. Coon, the Company's President. See note 4 for discussion of the subsequent increase in notes receivable resulting from the payoff of the Max A. Coon note previously secured by the Company. Obligations of Mr. Coon to the Company are evidenced by a promissory note at 6% interest as well as a pledge of Maxco stock held by Mr. Coon, interest is paid through December 31, 2009. Loans are to be paid by 85% of any distributions Mr. Coon receives from his Company stock, with payment of any outstanding amount in full by March 31, 2010. These advances as well as the cash security discussed in Note 4 were approved by Maxco's Board.

In April 2004 the Company entered into an agreement with the then President of its formerly wholly-owned subsidiary AAI based on the increased value, as defined of the subsidiary. In October 2008, \$300,000 of the balance remaining under the agreement was paid as a result of Maxco being paid \$3.0 million of its cash previously held in escrow. The remaining \$200,000 was paid during February 2010 to the former officer as a result of the \$2.0 million escrow released to Maxco on February 1, 2010 (See Note 4).

### **NOTE 6 – SALE OF BUILDING, REAL ESTATE AND REAL ESTATE INVESTMENTS HELD FOR SALE**

#### **CCA 110 W. Michigan**

During the year-ended March 31, 2009, the Company sold its 110 W. Michigan Avenue building owned by CCA, to a new LLC, which Maxco's President has a 45% interest. The building was sold under a \$3.8 million land contract at 6% interest with the Purchaser responsible for the land contract payoff, including the discharge of the mortgage note payment or assumption of the note including any fees or penalties by March 2009.

The Purchaser formally assumed the mortgage note of \$2.6 million on March 30, 2009 and is required to pay the \$1,188,000 note balance including 6% interest on the amount the purchase price exceeded the mortgage note by March 31, 2010. This note is recorded as a note receivable currently due on the balance sheet. Interest is being paid monthly.

The Company recorded a tax loss on the sale of its 110 W. Michigan Avenue building of approximately \$4.5 million which Maxco will carryback to its 2007 tax year resulting in \$1.5 million in recoverable income taxes (see note 7).

### **NOTE 7 – RECOVERABLE INCOME TAXES**

Current tax regulations permit Maxco to carryback to the 2007 tax year certain operating losses as well as certain losses incurred on the sale of its real estate and other investments. This carryback will entitle Maxco to a refund on a portion of the federal income tax that was originally paid as a result of the gain recognized on the sale of AAI sold that year. The tax carryback is an important element of Maxco's overall liquidation strategy of obtaining the maximum value for ultimate shareholder distribution.

Since the sale of CCA's 110 W. Michigan Avenue building was completed by December 31, 2008 and the sale by March 31, 2009 of its investment in L/M Associates, LLC, and L/M's investment in its MEIP portfolio the Company was able to carryback the tax loss related to these sales. Accordingly Maxco has recorded \$3.9 million in recoverable income taxes as of December 31, 2009.

**NOTE 8 – BUILDING, REAL ESTATE, AND REAL ESTATE INVESTMENTS HELD FOR SALE**

Maxco's remaining real estate investments at December 31, 2009, and March 31, 2009 consist primarily of approximately 13 acres of undeveloped commercial office land in Grand Ledge, MI, Ledges, as well as approximately 5,100 sq. ft. of leased and vacant office space.

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

	December 31, 2009	March 31, 2009
Gross Value:	<i>(in thousands)</i>	
Real estate held for sale	\$ 1,768	\$ 1,774
	1,768	1,774
Asset valuation allowance	(400)	(400)
	\$ 1,368	\$ 1,374

**NOTE 9 – INVESTMENT IN INTEGRAL VISION, INC.**

Maxco owns 2,410,183 shares of Integral Vision's common stock representing approximately 8% of Integral Vision's total common stock outstanding. At December 31, 2008, Integral Vision's stock was trading six cents per share.

In March 2007, Maxco advanced Integral Vision \$250,000 to permit Integral Vision to meet its obligations. This advance, which is now represented by 3 convertible notes are secured primarily by the Integral Vision's intellectual property, although \$125,000 of the amount is also secured by accounts receivable and inventory. These notes also include warrants earned in payment of outstanding interest on these notes. An adjustment of \$250,000 was made to the fair value upon adoption of the liquidation basis of accounting at December 5, 2008 to reflect the estimated net realizable value of the note.

**NOTE 10 – DEBT**

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

	December 31, 2009	March 31, 2009
	<i>(in thousands)</i>	
<b>Long term obligations:</b>		
Mortgage note payable	\$ 558	\$ 674
	558	674
Less current maturities	158	158
	\$ 400	\$ 516

Mortgage note payable consists of one mortgage which finances the land and building owned by Ledges Commerce Park, Inc. The balance of this note is approximately \$558,000 at December 31, 2009. The note requires Ledges to make monthly payments of \$16,900 (principle and interest) with final payment of any remaining principal and accrued interest on August 10, 2011. Interest charged on the note is Prime plus 1.25% with a floor of 7.5% (effective rate of 7.5% at December 31, 2009 and March 31, 2009).

The Company had a \$250,000 line of credit that required interest only payments and matured in October 2009. There were no outstanding draws on this facility at March 31, 2009 or through its maturity date in October 2009. The Company did not renew this line of credit.

**NOTE 11 – FEDERAL INCOME TAXES**

Federal income taxes (benefit) consist of the following components:

	Period End December 31, 2009
	<i>(in thousands)</i>
Current tax (benefit)	\$ -

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 December 31, 2009 and March 31, 2009:

<i>(in thousands)</i>	
<b>Deferred Tax Assets:</b>	
Net cumulative asset impairment losses	\$ 2,689
Other	196
<b>Total Deferred Tax Assets</b>	<b>2,885</b>
<b>Valuation Allowance for Deferred Tax Assets</b>	<b>2,885</b>
<b>Net Deferred Tax Assets</b>	<b>\$ -</b>

The Company has filed a carryback of its losses for the year ended March 31, 2009 to the March 31, 2007 period. As a result, A \$3.9 million receivable at December 31, 2009 and March 31, 2009 is due for recoverable income taxes.

The IRS does not have express authority to refund large tax overpayments. The Joint Committee on Taxation reviews cases involving large refunds (those in excess of \$2 million). The IRS is required to prepare a report for the Joint Committee that includes a summary of the facts and the Commissioner's decision regarding the refund. The Joint Committee can then delay the refund by requesting that the IRS make further investigations. The Company has classified its \$3.9 million receivable, due from the IRS, as long term (greater than one year) in the accompanying balance sheet due to the uncertainty of the time frame as to when the refund will be scheduled and finalized.

#### **NOTE 12 – SUBSEQUENT EVENTS**

**Liquating Distribution Declared:** On February 2, 2010, Maxco, Inc. declared a liquidation cash distribution of 75 cents per share, payable February 25, 2010 to common share holders of record as of February 16, 2010.

**Future Liquidating Distribution:** The Company anticipates that its Board of Directors will establish the timing and amount of the additional shareholder distribution as soon as Maxco collects the land contract proceeds under the 110 W. Michigan Ave. building transaction and Maxco is able to ascertain the timing of the Federal recoverable income tax refund. The timing will also depend on completion of the statutory review that will be required to be performed by the IRS, due to the substantial amount of the refund. Based on the value of net assets in liquidation at December 31, 2009 liquidating distributions are estimated to total \$3.25 per common share, of which 75 cents will be paid on February 25, 2010 leaving an estimated \$2.50 as the remaining liquidating distributions to be paid subsequent to that date.

**Real Estate Holdings:** The Company continues to analyze the value and strategy of divesting its remaining real estate, in today's tight real estate market environment. A factor in the strategy is that current tax regulations will allow the Company to recover 35% of any tax loss incurred on a sale of the real estate through March 31, 2010.