UNIVERSAL MFG. CO.

ANNUAL REPORT TO SHAREHOLDERS

2016

President's Message to Our Shareholders

UMC has concluded another year; it was profitable and we made real progress in consolidating our Ultra acquisition into our operations. We started off very strongly. The last two quarters were slower than planned or desired; however, we made substantial progress in developing our backlog and future market opportunities.

As I reflect on where we have been, I am proud of the progress we have made over the past six years – growing from a single operation with just over $10 Million in annual revenue to over $67 Million in revenue from four distinct operations in the year just ended. We are well positioned for continued growth with our successful acquisition of Man Lift and more recently the Ultra and Metal Works operations and our facility in Shelby, North Carolina. Our future certainly looks bright.

Reflecting on where we have been necessarily leads to a critical analysis of our path forward. As our Company has grown and evolved, the needs of our Company have changed. Our goal continues to be becoming a high performing company, defined as year or year growth in revenue and income, operational excellence and a thriving culture. We have laid a solid foundation toward this end but I believe that the role at the corporate level needs to evolve with fresh insight and more direct involvement in day to day operations. The Board concurs in this analysis.

Understanding this evolution and the needs of the organization, I have decided to resign my positions as President & CEO. It has been a fun six years; we have made much progress but now is a good time for me to step aside and let the evolution of UMC continue.

My decision though hard, is made much easier knowing that we found the right person to move our Company forward. Thomas Hance has been selected by the Board to fill the role as President & CEO. The change will be effective January 1, 2017. Tom has spent his career developing and leading high performing organizations in numerous world class companies, and brings expertise in market and revenue creation, innovation, and operational excellence. We are fortunate that a person of his caliber is available to us at this time. I look forward to supporting Tom in the future as a member of our UMC's board and I ask for your support of Tom, also.

As I conclude this, my last message to Shareholders, I say thanks to all UMC employees and team members; to all of you, it has been a joy and privilege to work with you and I will miss most our regular contact and communications. And to you, our Shareholders, thank you for your support– it has been a great six years and together we can all look forward to many more.

Be Well,

Donald L. Dunn
President & CEO

Management's Discussion and Analysis of the Company's Structure, Operations and Financial Results

Overall results for UMC were significantly improved from prior year. Our sales increased dramatically, 166% year over year, we report operating income of $1.3 Million and net income after taxes of $322 Thousand. Sales of UMC ReTech declined 6.0% year over year. Operating income for the operation decreased by 49% year over year. Our Shelby operation, including Man Lift Mfg. Co., ("MLM") Metal Works Mfg. Co., ("MWM") and Ultra Armoring, LLC ("Ultra") saw sales increase by 287% and operating income was $1.7 Million compared to a loss of $1.3 Million in the prior year. The comparative numbers include the entire year for MLM but only the last five months of FY2015 for MWM and Ultra. Sales were materially impacted by a large contract with US SOCOM that was completed without material impact on our operating facility; this fact impacted and tends to overstate the volume of product produced in our facility. Because of this, our unapplied manufacturing costs were significantly higher than anticipated.

Our Balance Sheet was similarly materially changed due to the large SOCOM contract that was in process at prior year end. Both inventory and short term debt decreased dramatically year over year, $17.65 Million and $16.32 Million, respectively. We made no material capital expenditures during the year.

The balance sheet and income statement have been prepared on the basis of a retrospective application of a voluntary change in accounting policy relating to revenue recognition of the MLM operation.

The new revenue recognition policy for MLM is to recognize revenue when there is evidence of a sales agreement, the delivery of goods has occurred, the sales price is fixed or determinable and the collectability of revenue is reasonably assured. This would generally occur upon shipment of product to customers and transfer of title under standard commercial terms.

The previous recognition policy for MLM was to recognize revenue on the percentage of completion method. Profit on contracts was realized on the difference between contract price and the actual costs incurred. Revenue was measured by the percentage of total costs incurred to date to estimated total costs for each contract.

The new accounting policy for MLM was adopted on August 1, 2015 and has been applied retrospectively. Revenue recognition will now be on the same basis for the consolidated companies. Management believes the change in policy will result in the financial report providing more relevant and no less reliable information because it leads to a more consistent treatment of revenue and expenses across all operations.

Given the recent acquisition of two operation and the relocation of the MLM business to Shelby, NC, it was considered appropriate to change the accounting policy so that all businesses operating at that location were recognizing revenue on a consistent basis.

The success experienced with the SOCOM contract announced and detailed last year accelerated significantly the earn out available to the seller in the Ultra transaction. The earn out was based on sales volume on an annual basis over a four year period. Because of the size of the SOCOM transaction, the entire earn out became due and owing after only one year. This required that we pay the seller $4.5 Million of additional consideration. The income statement impact of this payment was recognized in FY2015. The balance sheet impact was felt this year. The additional consideration was paid in May of 2016 with $750,000 being paid with 50,067 shares of restricted common stock issued at book value as of February 29, 2016. The balance or $3.75 Million was paid in cash. We completed this payment with no new term debt being incurred. The common stock issued to the seller is subject to a "put" exercisable in March 2019. If exercised, the put requires UMC to redeem all 50,067 shares issued at net book value per share as of February 28, 2019.

The past year has shown both the positive impact and risk associated with the Ultra acquisition completed in FY2015. On the positive side, we were in a position to react quickly and effectively when the SOCOM transaction first presented. It was completed successfully this past year providing a major positive impact both on total revenue and operating income. Without the Ultra transaction, we would not have been able to compete for this work. On the risk side of the equation, as sales slowed in the second half of the year, we immediately felt the impact of our significantly increased cost structure resulting in substantial unapplied operating costs over the last two quarters. This was exaggerated when a customer delayed production on a significant contract; the work was simply slowed down and we are back producing substantial volume monthly. Lost time in a manufacturing environment is lost forever and we felt the truth of that fact in our second half of the year.

The upside still remains, and we are prepared to effectively and efficiently perform when the next opportunity presents. We are addressing the risk portion of the model by taking steps to both generate additional regular reoccurring work from multiple customers and becoming substantially more efficient in scheduling and performing work and substantially reducing the need for rework and warranty claims. Progress on all of these items has been made and all remain a primary focus as we move into our next year.

Our reporting status has not changed in the past year. Effective October 25, 2002, the Company made the necessary filing with the Security and Exchange Commission to deregister its common stock. As a result of this deregistration, the Company requested a voluntary delisting of its common stock from NASDAQ Small Cap Market. The stock continues to be listed on the pink sheets using the symbol UFMG. The Company understands and believes that some firms continue to make a market in the Company's stock.

FORWARD LOOKING STATEMENTS - SAFE HARBOR

Statements herein that are not historical facts, including statements about the company's confidence and strategies and the Company's expectations about future market opportunities, market demand or acceptance of the Company's products are forward looking statements that involve risks and uncertainties. These uncertainties include, without limitation, the effect of general economic and market conditions, customer requirement for our products, the continuing strength of the industries in which we operate, competitor pricing, maintenance of our current momentum, weather conditions and other factors.

Independent Auditor's Report

To the Board of Directors
Universal Mfg. Co. and Subsidiaries
Lincoln, Nebraska

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Universal Mfg. Co. and Subsidiaries, which comprise the consolidated balance sheets as of July 31, 2016 and 2015; the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements.

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.

Auditor's Responsibility
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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Universal Mfg. Co. and Subsidiaries as of July 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1 to the consolidated financial statements, the Company has elected to change its method of accounting for revenue. The 2015 consolidated financial statements have been adjusted to retroactively apply a change in accounting principle. Our opinion is not modified with respect to this matter.

RSM US LLP

Omaha, Nebraska
October 27, 2016

Universal Mfg. Co. and Subsidiaries

Consolidated Balance Sheets
July 31, 2016 and 2015

	2016	2015, as Adjusted (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 33,204	$ 33,783
Restricted cash	-	156,268
Receivables:		
Trade receivables, less allowance of $103,927 and $105,309, respectively	3,761,022	3,425,964
Other receivables, net	223,402	275,757
Inventories, net	8,701,271	26,352,133
Prepaid expenses	1,322,824	470,463
Income tax receivable	1,009,649	724,612
Deferred income taxes	632,513	573,479
Total current assets	15,683,885	32,012,459
Property, plant and equipment, net	7,700,810	8,847,415
Other noncurrent assets:		
Intangibles, net of amortization	93,496	107,591
Goodwill	4,904,350	4,904,350
	4,997,846	5,011,941
Total assets	$ 28,382,541	$ 45,871,815
Liabilities and Stockholders' Equity		
Current liabilities:		
Outstanding checks in excess of bank balance	$ 199,741	$ 358,284
Lines of credit	1,941,730	18,262,040
Current portion of long-term debt	531,554	509,909
Accounts payable	5,829,097	2,494,258
Deferred revenue	205,225	1,042,885
Contingent consideration liability	-	4,500,000
Accrued expenses and other liabilities	2,119,462	2,177,283
Total current liabilities	10,826,809	29,344,659
Noncurrent liabilities:		
Long-term debt, less current portion	5,672,622	6,200,617
Deferred income taxes	883,831	404,498
Total noncurrent liabilities	6,556,453	6,605,115
Stockholders' equity:		
Common stock—$1 par value, 2,000,000 shares authorized; 866,067 and 816,000 shares issued and outstanding, respectively	866,067	816,000
Additional paid-in-capital	842,326	137,517
Retained earnings	9,290,886	8,968,524
Total stockholders' equity	10,999,279	9,922,041
Total liabilities and stockholders' equity	$ 28,382,541	$ 45,871,815

See notes to consolidated financial statements.

Universal Mfg. Co. and Subsidiaries

Consolidated Statements of Operations
Years Ended July 31, 2016 and 2015

	2016	2015, as Adjusted (Note 1)
Net sales	$ 67,336,219	$ 25,347,195
Cost of goods sold	(58,575,448)	(20,545,729)
Gross profit	8,760,771	4,801,466
Operating expenses:		
Selling, general and administrative expenses	6,635,403	4,318,141
Change in fair value of contingent consideration liability	-	853,000
Other corporate operations	776,458	703,579
Total operating expenses	7,411,861	5,874,720
Operating income (loss)	1,348,910	(1,073,254)
Other income (expense):		
Interest expense	(730,151)	(265,696)
Loss on sale of assets	(20,330)	(99,181)
Other, net	20,809	3,423
Total other expense	(729,672)	(361,454)
Income (loss) before income tax (expense) benefit	619,238	(1,434,708)
Income tax (expense) benefit	(278,277)	383,137
Income (loss) from continuing operations	340,961	(1,051,571)
Discontinued operations:		
Loss from discontinued operations, net of tax	(18,599)	(10,621)
Net income (loss)	$ 322,362	$ (1,062,192)
Income (loss) per common share—basic:		
Income (loss) from continuing operations	$ 0.41	$ (1.29)
Loss from discontinued operations, net of tax	(0.02)	(0.01)
Net income (loss) per common share—basic	$ 0.39	$ (1.30)
Income (loss) per common share—diluted:		
Income (loss) from continuing operations	$ 0.41	$ (1.29)
Loss from discontinued operations, net of tax	(0.02)	(0.01)
Net income (loss) per common share—diluted	$ 0.39	$ (1.30)

See notes to consolidated financial statements.

Universal Mfg. Co. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Years Ended July 31, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance, July 31, 2014, as adjusted (Note 1)	$ 816,000	$ 128,392	$ 10,528,352	$ 11,472,744
Change in accounting principle (Note 1)	-	-	(497,636)	(497,636)
Net loss	-	-	(1,062,192)	(1,062,192)
Noncash stock-based compensation	-	9,125	-	9,125
Balance, July 31, 2015, as adjusted (Note 1)	816,000	137,517	8,968,524	9,922,041
Net income	-	-	322,362	322,362
Stock issuance (Note 2)	50,067	699,933	-	750,000
Noncash stock-based compensation	-	4,876	-	4,876
Balance, July 31, 2016	**$ 866,067**	**$ 842,326**	**$ 9,290,886**	**$ 10,999,279**

See notes to consolidated financial statements.

Universal Mfg. Co. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended July 31, 2016 and 2015

	2016	2015, as Adjusted (Note 1)
Cash flows from operating activities:		
Net income (loss)	$ **322,362**	$ (1,062,192)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	**1,438,944**	987,063
Deferred income taxes	**420,299**	(139,094)
Loss on sale of assets	**20,330**	99,181
Change in fair value of contingent consideration liability	**-**	853,000
Noncash stock-based compensation	**4,876**	9,125
Changes in assets and liabilities:		
Receivables	**(282,703)**	409,097
Income tax receivable	**(285,037)**	(621,750)
Inventories	**17,650,862**	(19,207,899)
Prepaid expenses	**(852,361)**	(292,514)
Accounts payable	**3,334,839**	1,465,890
Deferred revenue	**(837,660)**	(2,208,354)
Contingent consideration liability	**(853,000)**	-
Accrued expenses and other liabilities	**(57,821)**	(664,232)
Net cash provided by (used in) operating activities	**20,023,930**	(20,372,679)
Cash flows from investing activities:		
Cash paid for business combination	**-**	(3,981,473)
Purchases of property, plant and equipment	**(334,574)**	(82,627)
Proceeds from sales of property and equipment	**36,000**	1,000
Net cash used in investing activities	**(298,574)**	(4,063,100)
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balance	**(158,543)**	358,284
Change in restricted cash	**156,268**	(156,268)
Net activity on lines of credit	**(16,320,310)**	18,262,040
Proceeds from issuance of long-term debt	**-**	4,000,000
Repayment of long-term debt	**(506,350)**	(302,222)
Cash paid in conjunction with settlement of contingent liability	**(2,897,000)**	-
Net cash (used in) provided by financing activities	**(19,725,935)**	22,161,834
Net decrease in cash and cash equivalents	**(579)**	(2,273,945)
Cash and cash equivalents:		
Beginning	**33,783**	2,307,728
Ending	$ **33,204**	$ 33,783

(Continued)

Universal Mfg. Co. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended July 31, 2016 and 2015

	2016	2015, as Adjusted (Note 1)
Supplemental disclosures of cash flow information:		
Cash paid for interest	**$ 720,925**	$ 194,869
Cash paid for income taxes, net	**$ 408,800**	$ 71,206
Supplemental disclosures of noncash information:		
Stock issued in conjunction with settlment of contingent liability	**$ 750,000**	$ -
Debt issued in conjunction with business combination	**$ -**	$ 1,000,000
Contingent consideration liability incurred in conjunction with business combination	**$ -**	$ 3,647,000

See notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Nature of operations: Universal Mfg. Co. is engaged in the business of remanufacturing and/or distribution, on a wholesale basis, of electric fuel pumps, transfer cases, calipers, transmission assemblies and other automotive parts for many makes and models of vehicles. The principal markets for Universal MFG. Co.'s products are automotive dealers, jobbers, repair shops and other automotive parts distributors located throughout the United States and Canada.

Universal Mfg. Co.'s wholly owned subsidiary Man Lift Mfg. Co. is engaged in the business of assembly, manufacture, distribution and sale of specialty manlift products and mobile hydraulic equipment, such as hazardous environment, scissor, pedestal, aerial, clean room and explosion-proof lifts.

Universal Mfg. Co.'s wholly owned subsidiary Ultra Armoring, LLC is engaged in the business of design, manufacture and assembly of products for the United States government with a principal focus on armor for military equipment.

Universal Mfg. Co.'s wholly owned subsidiary Metal Works Mfg. Co. is engaged in the business of cutting, forming, bending, welding and assembling of steel for original equipment manufacturers and other customers that have a need for large, heavy-gauge steel parts and products.

Principles of consolidation: The consolidated financial statements include the accounts of the parent company, Universal Mfg. Co., and its wholly owned subsidiaries (collectively, the Company). All material intercompany accounts and transactions have been eliminated in consolidation.

Cash, restricted cash and cash equivalents: All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents. Restricted cash serves as collateral on the Company's issued letters of credit.

Trade receivables: Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables are recorded when received.

Inventories: Inventory is stated at the lower of cost or market. The cost of inventory is determined using the last-in, first-out (LIFO) and the first-in, first-out (FIFO) methods.

Property, plant and equipment: Property, plant and equipment are generally recorded at cost. Property, plant and equipment acquired in a business combination are recorded at fair value on the acquisition date. Depreciation expense is computed using accelerated and straight-line methods and is recorded over the estimated useful lives of the individual assets. The depreciation methods generally used and the estimated useful lives are as follows:

Assets	Depreciation Method	Lives
Buildings	Straight-line and declining-balance	10-39 years
Machinery and equipment	Straight-line and declining-balance	7-10 years
Office equipment and software	Straight-line and declining-balance	3-7 years
Motor vehicles	Straight-line and declining-balance	3-5 years

Maintenance and repairs are charged to operations as incurred. Gains or losses are recognized at the time of disposal.

Note 1. Summary of Significant Accounting Policies (Continued)

The Company would provide for impairment losses on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the respective asset's carrying amount. Based on current conditions, management does not believe any of the Company's long-lived assets are impaired.

Goodwill: Goodwill represents the excess of purchase price and related costs over the value assigned to the net assets acquired. Goodwill is not amortized, but the Company performs impairment tests annually and whenever events or circumstances occur indicating that goodwill might be impaired. Based upon the Company's annual assessment for the years ended July 31, 2016 and 2015, no impairment of goodwill has occurred.

Income taxes: The Company files a consolidated federal tax return for income tax purposes.

Deferred taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. 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. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on technical merits of the position. The tax benefits recognized in consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance for accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Revenue and cost recognition: The Company recognizes sales when there is evidence of a sales agreement, the delivery of goods has occurred, the sales price is fixed or determinable, and the collectibility of revenue is reasonably assured. The Company generally records sales upon shipment of product to customers and transfer of title under standard commercial terms.

Man Lift Mfg. Co. implemented a change in accounting principle on August 1, 2015, from the percentage-of-completion method to the revenue recognition policy described in the previous paragraph. The revenue recognition policy described in the previous paragraph is preferred, given the nature of the Company's production activities.

Man Lift Mfg. Co.'s old method recognized revenue on the percentage-of-completion method. Profit on contracts was realized on the difference between the contract price and the actual costs incurred. Revenue was measured by the percentage of total costs incurred to date to estimated total costs for each contract. Management considered expended costs to be the best available measure of progress on these contracts.

Note 1. Summary of Significant Accounting Policies (Continued)

Total stockholders' equity at July 31, 2014, and the 2015 consolidated financial statements have been restated to disclose the retroactive application of this change in accounting principle. The impact of this change in accounting principle resulted in a reduction of approximately $498,000 to total stockholders' equity previously reported at July 31, 2014. The impact to the previously reported 2015 consolidated financial statements is as follows:

Consolidated balance sheet:

	2015		
	As Originally Reported	Adjusted for Accounting Change	Effect of Change
Assets:			
Cost and estimated earnings in excess of billings on uncompleted contracts, net	$ 2,061,445	$ -	$ (2,061,445)
Inventories, net	24,100,640	26,352,133	2,251,493
Income tax receivable	664,297	724,612	60,315
Liabilities:			
Deferred revenue	$ 685,295	$ 1,042,885	$ (357,590)
Stockholders' equity:			
Retained earnings	$ 9,075,751	$ 8,968,524	$ 107,227

Consolidated statement of operations:

	As Originally Reported	Adjusted for Accounting Change	Effect of Change
Net sales	$ 23,914,152	$ 25,347,195	$ 1,433,043
Cost of goods sold	(19,722,701)	(20,545,729)	(823,028)
Income tax benefit	607,183	387,577	(219,606)
			$ 390,409
Loss per common share—basic:			
Loss from continuing operations	$ (1.77)	$ (1.29)	$ 0.48
Loss from discontinued operations, net of tax	(0.01)	(0.01)	-
Net loss per common share—basic	$ (1.78)	$ (1.30)	$ 0.48
Loss per common share—diluted:			
Loss from continuing operations	$ (1.77)	$ (1.29)	$ 0.48
Loss from discontinued operations, net of tax	(0.01)	(0.01)	-
Net loss per common share—diluted	$ (1.78)	$ (1.30)	$ 0.48

Note 1. Summary of Significant Accounting Policies (Continued)

Consolidated statement of cash flows:

	2015		
	As Originally Reported	Adjusted for Accounting Change	Effect of Change
Cash flows from operating activities:			
Net loss	$ (1,452,601)	$ (1,062,192)	$ 390,409
Adjustments to reconcile net loss to net cash used in operating activities:			
Income tax receivable	(561,435)	(621,750)	(60,315)
Costs and estimated earnings in excess of billings on uncompleted contracts, net	(1,460,607)	-	1,460,607
Inventories	(20,310,847)	(19,207,899)	1,102,948
Deferred revenue	685,295	(2,208,354)	(2,893,649)
			$ -

Warranties: The Company generally provides a one-year warranty on certain products manufactured and sold. A provision for warranty is calculated and recognized for each covered product based on available past historical data on the levels of repairs and returns.

Income per common share: Income per common share for 2016 and 2015 was computed by dividing the weighted-average number of shares of common stock outstanding into net income (loss). The basic weighted-average number of shares of common stock outstanding for the years ended July 31, 2016 and 2015, were 828,482 and 816,000, respectively. The diluted weighted-average number of shares of common stock outstanding for the years ended July 31, 2016 and 2015, were 836,348 and 816,000, respectively. The additional dilutive shares relate to outstanding stock options.

Use of estimates: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), management uses estimates and assumptions. Those estimates and assumptions 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments: The Company uses a framework for measuring fair value, and expands disclosures about fair value measurement when it is obligated to do so based upon the assets or liabilities it holds. The carrying value of cash and cash equivalents, receivables, accounts payable, deferred revenue, accrued expenses, lines of credit and debt approximates their fair value in the accompanying consolidated balance sheets. The contingent consideration liability is revalued to fair value at each reporting date. See Note 14 for additional fair value disclosures.

Subsequent events: The Company has evaluated subsequent events through October 27, 2016, the date on which the consolidated financial statements were available to be issued.

Note 1. Summary of Significant Accounting Policies (Continued)

Recently issued accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* The updated standard will replace most existing revenue recognition guidance for U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative-effect transition method. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date to annual reporting periods beginning after December 15, 2018. Accordingly, the Company will be required to adopt the new guidance beginning in the fiscal year beginning on August 1, 2019. In May 2016, ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical* Expedients, was issued providing additional clarification on specific aspects of the new revenue guidance. The Company has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting.

For nonpublic entities with fiscal years beginning after December 15, 2019, ASU No. 2016-02, *Leases (Topic 842,)* issued by the FASB in February 2016, will require entities to significantly change the treatment of leases. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified-retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Companies will be required to recognize for all leases (with the exception of short-term leases) at the commencement date 1) a lease liability, which is the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting is largely unchanged; however, certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. As primarily a lessor, the Company will have to carefully analyze the impacts of this standard on its contracts and customers and any effect it will have on the consolidated financial statements. The Company has not yet determined the effect of the standard on its ongoing financial reporting.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory.* The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This ASU will be effective for the Company for fiscal years beginning after December 15, 2016. Early adoption of ASU 2015-11 is permitted. The Company is currently evaluating the effects adoption of this guidance will have on its consolidated financial statements.

Note 2. Business Combination

Effective March 1, 2015, the Company acquired certain assets of Ultra Machine & Fabrication, Inc. and the outstanding ownership of Ultra Armoring, LLC. The acquisition was made to continue the Company's growth strategy.

The transaction was accounted for under the acquisition method of accounting, with the purchase price allocated based on fair value of the individual assets and liabilities acquired. The acquisition-date fair value of total consideration was $8,628,473, consisting of cash consideration of $3,981,473, a promissory note to the seller of $1,000,000, and contingent consideration to the seller with an acquisition-date fair value of $3,647,000. The fair value of certain property and equipment was determined by an independent appraisal process. The acquisition's aggregate purchase price was derived from a competitive arm's-length negotiation and resulted in recognition of goodwill after recognizing individual assets and liabilities.

The total purchase price was allocated approximately as follows:

Inventories	$ 378,622
Other current assets	36,506
Property and equipment	8,471,206
Intangible assets	72,000
Goodwill	5,750
Liabilities assumed	(335,611)
Total purchase price	$ 8,628,473

The contingent consideration is a potential earn-out payment due to seller if the net revenue related to the acquired businesses exceeds $20 million per measurement period. Measurement periods are for four successive annual periods commencing March 1, 2015. The Company will owe the seller 20 percent of the net revenues over $20 million. In addition, there is an earn-out cap of $4.5 million for the entire earn-out period. For net revenue of less than $20 million, the earn-out value will be zero. For net revenue exceeding $20 million and up to and including $22.5 million, the earn-out value will be paid in restricted shares. For net revenue exceeding $22.5 million and up to and including $25 million, the earn-out value will be paid 50 percent in restricted shares and 50 percent in cash. For net revenue exceeding $25 million, the earn-out value will be paid solely in cash. If net revenue is over $42.5 million for the 12 months ending February 28, 2016, all $4.5 million of the earn-out will have been earned with $750,000 issued in restricted shares and $3,750,000 payable in cash. The number of restricted shares to be issued as part of the earn-out is calculated using book value per share. The restricted shares will also be subject to a put option allowing the seller to put the shares back to the Company on the third anniversary of issuance at a price per share equal to the net book value per share on the date of exercise.

The earn-out with a fair value estimate of $4.5 million at July 31, 2015, was fully settled during the year ended July 31, 2016. The settlement consisted of a cash payment of $3,750,000 and the issuance of 50,067 shares based on a book value per share of $14.98.

Included in operating expenses in the accompanying 2015 consolidated financial statements is $126,387 of acquisition costs relating to the business combination.

Concurrent with the acquisition, the Company entered into a lease agreement for manufacturing space in Shelby, North Carolina. During the year ended July 31, 2015, the Company moved its Man Lift Mfg. Co. operations to the Shelby facility. Included in selling, general and administrative expenses in the accompanying consolidated financial statements is $406,167 of reorganization expenses relating to Man Lift Mfg. Co. as a result of relocating operations.

Note 3. Inventories

Inventories consisted of the following as of July 31:

	2016	2015
Inventories (on an average cost basis):		
Product core	$ 1,833,712	$ 1,647,968
Raw materials	1,290,380	1,292,984
Finished small parts	1,827,862	1,489,247
	4,951,954	4,430,199
LIFO reserves	(965,845)	(940,241)
Inventories at LIFO	3,986,109	3,489,958
Work in process at FIFO	3,559,396	22,631,087
Other inventories, principally FIFO	1,607,707	687,239
Obsolescence reserves	(451,941)	(456,151)
	$ 8,701,271	$ 26,352,133

Note 4. Property, Plant and Equipment

Property, plant and equipment by major classification as of July 31 were as follows:

	2016	2015
Land	$ 68,279	$ 68,279
Buildings and land improvements	1,467,691	1,567,359
Machinery and equipment	9,279,582	9,314,881
Office equipment and software	908,114	946,398
Motor vehicles	193,353	193,353
	11,917,019	12,090,270
Less accumulated depreciation	4,258,638	3,312,675
	7,658,381	8,777,595
Construction in progress	23,429	14,820
Property held for future use	19,000	55,000
	$ 7,700,810	$ 8,847,415

Depreciation expense was $1,424,849 and $978,927 for the years ended July 31, 2016 and 2015, respectively.

Note 5. Lines of Credit

As of July 31, 2016, the Company had an agreement with Security First Bank for one line of credit up to $7,500,000. Maximum borrowing under the line of credit is limited to the lesser of $7,500,000 or a borrowing base calculation ($5,962,251 at July 31, 2016). The approved line of credit is available until August 1, 2017. The line of credit accrues interest on the outstanding principal balances at an annual variable rate equal to the *Wall Street Journal* U.S. prime rate plus 0.5 percent (4.0 percent as of July 31, 2016). The line of credit is secured by blanket security agreements over the general business assets of the Company. At July 31, 2016, the Company had balances on the line of credit of $1,941,730.

Note 5. Lines of Credit (Continued)

As of July 31, 2015, the Company had agreements with Security First Bank for three lines of credit up to $10,000,000, $7,700,000 and $5,000,000, respectively. Maximum borrowing under the third line of credit was limited to the lesser of $5,000,000 or a borrowing base calculation ($6,878,353 at July 31, 2015). The approved lines of credit were available until November 7, 2015, December 1, 2015, and February 27, 2016, respectively. The first and second lines of credit accrued interest on the outstanding principal balances at 4.75 percent. The third line of credit accrued interest on the outstanding principal balance at an annual variable rate equal to the *Wall Street Journal* U.S. prime rate plus 0.5 percent (3.75 percent as of July 31, 2015). The lines of credit were secured by blanket security agreements over the general business assets of the Company. At July 31, 2015, the Company had balances on the lines of credit of $10,000,000, $6,088,000 and $2,174,040, respectively.

Note 6. Long-Term Debt

Long-term debt as of July 31 consists of the following:

	2016	2015
Note payable to Security First Bank, interest fixed at 4%, payable in monthly installments, maturing July 2024	$ 1,672,371	$ 1,846,096
Note payable to Security First Bank, interest fixed at 4.25%, payable in monthly installments, maturing February 2020	3,531,805	3,864,430
Note payable to Ultra Machine & Fabrication, Inc., variable interest (3.5% at July 31, 2016), interest payable in monthly installments, principal due upon note maturing February 2019	1,000,000	1,000,000
Total long-term debt	6,204,176	6,710,526
Less current portion	531,554	509,909
	$ 5,672,622	$ 6,200,617

The approximate annual requirements for principal payments on long-term debt for the next five years and thereafter are as follows:

Years ending July 31:	
2017	$ 532,000
2018	554,000
2019	1,578,000
2020	2,638,000
2021	213,000
Thereafter	685,000
	$ 6,200,000

Note 6. Long-Term Debt (Continued)

Substantially all assets of the Company are pledged as security for the long-term debt with Security First Bank.

The Security First Bank credit facility is subject to a security and loan agreement, which contains certain restrictions on dividends to stockholders, capital improvement limitations, and a provision such that the Company shall not incur or contract any new debt. Such agreement also discloses the Company shall maintain a maximum total bank debt-to-equity ratio of 1.0 and a debt service coverage ratio of not less than 1.75-to-1, and is subject to various nonfinancial covenants. The Company was in compliance with all bank covenants as of July 31, 2016.

Note 7. Income Taxes

The net deferred tax liabilities (assets) consist of the following components as of July 31:

	2016	2015
Deferred tax liabilities:		
Property, plant and equipment	$ 574,845	$ 238,981
Intangible assets	308,986	165,517
	883,831	404,498
Deferred tax assets:		
Allowance for doubtful accounts	(37,414)	(37,911)
Inventory reserve	(162,699)	(164,214)
Warranty reserve	(176,462)	(148,254)
Inventory capitalization	(70,095)	(34,023)
Accrued vacation	(46,925)	(52,079)
Self-funded insurance	(88,439)	(87,523)
Accrued rent expense	(23,006)	(16,428)
Accrued audit fees	(23,886)	(30,998)
Charitable contributions	(3,587)	(2,049)
	(632,513)	(573,479)
	$ 251,318	$ (168,981)

The deferred tax amounts mentioned above have been classified in the accompanying consolidated balance sheets as of July 31 as follows:

	2016	2015
Long-term liabilities	$ 883,831	$ 404,498
Current (assets)	(632,513)	(573,479)
	$ 251,318	$ (168,981)

Note 7. Income Taxes (Continued)

The provision for income taxes charged to income for the years ended July 31 consists of the following:

	2016	2015
Current expense (benefit):		
Federal	$ (164,796)	$ (263,483)
State	15,000	15,000
Deferred benefit	420,299	(139,094)
	$ 270,503	$ (387,577)

A reconciliation of the provision for income taxes and the amount computed by applying the federal statutory rate to income before income tax expense for the years ended July 31 is as follows:

	2016	2015
Computed income tax expense (benefit) at federal statutory rate of 34%	$ 201,574	$ (362,655)
Meals and entertainment expense	13,667	9,571
Domestic production activities deduction	16,354	50,909
Other, net	38,908	(85,402)
	$ 270,503	$ (387,577)

The Company files income tax returns in the U.S. federal jurisdiction and other state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, or state and local income tax examinations by tax authorities for years before 2011.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended July 31, 2016 and 2015, the Company did not recognize any interest or penalties. As of July 31, 2016 and 2015, the Company did not have any balances accrued for interest or penalties.

Note 8. Employee Benefits

401(k) plan: The Company sponsors a 401(k) plan, which is available to all employees who are at least 21 years of age and have completed one year of service. Employees can contribute up to 15 percent of their compensation to the plan. The Company will provide a matching contribution equal to employee contributions up to a maximum of 3 percent. Total expenses for the Company under the plan were approximately $160,000 and $111,000 for the years ended July 31, 2016 and 2015, respectively.

Individual retirement account (IRA) plan: The Company maintains an IRA retirement plan for employees employed by the Company as of May 6, 2007. The Company will make a matching contribution to the IRA. The Company's total matching contribution to hourly employees is $0.40 per hour to a maximum of 40 hours per week. Total expenses for the Company under the plan were approximately $8,000 and $10,000 for the years ended July 31, 2016 and 2015, respectively.

Note 9. Union Agreement

The Company entered into an agreement with the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW)'s Amalgamated Local 838 International Union (Union). The Union agreement shall remain in full force and is effective from May 6, 2016, until and including May 5, 2019, and from year to year thereafter unless either party desiring to amend or terminate the Union agreement shall serve upon the other written notice not later than 60 days prior to May 5, 2016.

Note 10. Commitments and Contingencies

The Company is obligated under certain noncancelable operating leases. Assets held under these leases include the land, building and telephone system for the Company's operating locations. The Company is also responsible for all taxes, insurance, utilities and repairs. All leases provide for renewal periods. Lease expense for the years ended July 31, 2016 and 2015, was approximately $730,000 and $381,000, respectively.

Minimum payments for operating leases having initial or remaining noncancelable terms in excess of one year are as follows:

Years ending July 31:	
2017	$ 544,000
2018	147,000
2019	138,000

The Company is periodically associated with claims and pending legal proceedings that occur in the normal course of business. These proceedings are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by the Company. In the opinion of management, the ultimate disposition of such proceedings are not expected to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Note 11. Concentrations of Credit Risk

The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral for accounts receivable arising from the normal course of business. The Company maintains allowances for potential credit losses which, when realized, have been within the range of management's expectations.

In addition, a material portion of the Company's business is with major customers. For the year ended July 31, 2016, the Company had one customer that accounted for 47 percent of consolidated net sales. There were no amounts due from this major customer at July 31, 2016. For the year ended July 31, 2015, the Company had one customer that accounted for 14 percent of consolidated net sales. Amounts due from this major customer included within accounts receivable on the consolidated balance sheets were approximately $859,000 at July 31, 2015.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 11. Concentrations of Credit Risk (Continued)

In July 2015, the Company was awarded a contract with a department of the United States government for the delivery of certain vehicles to locations in the Middle East. The total amount of the contract was approximately $31.7 million, with delivery scheduled for August through October 2015. Work-in-process inventory associated with this contract was approximately $17.8 million as of July 31, 2015. The Company's use of the $10 million and $7.7 million lines of credit as disclosed in Note 5 was limited to purchasing vehicles relating to the contract. During the year ended July 31, 2016, the Company received payments from the government totaling approximately $31.7 million. Of the payments received, approximately $18.3 million was used to pay down the balance on the Company's lines of credit.

Note 12. Related-Party Transactions

A member of the Board of Directors is the president and majority owner of a leasing company for which the Company incurred rental expense of $-0- and $12,384 in 2016 and 2015, respectively.

An employee and officer of the Company is a director in the institution in which the Company has depository funds and debt financing. This individual is also associated with a legal firm for which the Company incurred expense of $59,459 and $50,017 in 2016 and 2015, respectively.

A member of the Board of Directors was paid for his assistance in securing the contract previously described in Note 11 for which the Company incurred an expense of $40,000 in 2016.

To facilitate the financing by Security First Bank for the U.S. government contracts described in Note 11, Security First Bank participated out a portion of the loans. Two companies owned in part by a member of the Board of Directors of the Company participated $2.75 million, and an employee and officer of the Company participated $850,000. The related parties earned an annual rate of 10 percent simple interest in the aggregate for their participations, that being 4.75 percent through and from Security First Bank, and an additional 5.25 percent per annum directly from the Company. In addition, the Company paid a loan fee of 3 percent to the related parties.

Note 13. Discontinued Operations

During 2014, the Company made the formal decision to discontinue the fuel pump remanufacturing line.

The revenues and operating results classified as discontinued operations were as follows:

	Years Ended July 31	
	2016	2015
Net sales	$ (16,461)	$ 64,141
Cost of goods sold	(9,912)	(79,202)
Loss before income tax benefit	(26,373)	(15,061)
Income tax benefit	7,774	4,440
Loss from discontinued operations, net of tax	$ (18,599)	$ (10,621)

Note 14. Fair Value Measurements

Financial assets and liabilities carried at fair value are classified and disclosed in one of the following categories:

Level 1: Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2: Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, or by model-based techniques in which all significant inputs are observable in the market.

Level 3: Valuation is derived from model-based techniques in which at least one significant input is unobservable and based on the Company's own estimates about the assumptions that market participants would use to value the asset or liability.

A description of the valuation methodologies used for instruments measured at fair value, including the general classifications of such instruments pursuant to the valuation hierarchy, is set forth below:

Contingent consideration liability: The contingent consideration liability is reported at fair value utilizing Level 3 inputs based on the expected timing of consideration payments. The liability is valued based on management's projections of future revenues.

The following table reflects activity for the liability measured at fair value using Level 3 inputs:

Balance, July 31, 2015	$ 4,500,000
Cash payment	(3,750,000)
Issuance of shares of common stock	(750,000)
Balance, July 31, 2016	$ -

EXECUTIVE OFFICERS

Robert E. Scott	**Donald L. Dunn**	**Dawn M. Sutter**
Chairman of the Board	President & CEO	Secretary/Treasurer

DIRECTORS

Robert E. Scott
President
Kinport Corporation
Lincoln, Nebraska

Donald L. Dunn
Chief Executive Officer & President
Universal Mfg. Co.
Lincoln, Nebraska

Jeff A. Einfalt
Consultant to Kinder Porter
Scott Foundation
Lincoln, Nebraska

P. Kevin Pope
President
Pen-Link, Ltd.
Lincoln, Nebraska

James W. Cluck, Jr.
Consultant
974 Burlwood Court
Longwood, FL 32750

UNIVERSAL MFG. CO.
1128 Lincoln Mall
Suite 301
Lincoln, Nebraska 68508