# UNIVERSAL MFG. CO.

## Annual Report

## 2011

# President's Message to Our Stockholders

The past year at Universal Mfg. Co., is best described as a year of change – change in what we do; change in people; change in opportunities; and change in focus. It has been a year of refocusing and transition; it has been an exciting year that has put us in a position to substantially increase both revenue and profitability as we move forward.

In October of 2010, the Board of Directors appointed me to the position of President & CEO of the Company. Our former President, Don Heupel, who has provided great leadership and stewardship of the Company for many years, remains a most important part of the Company, continuing to serve as President of the ReTech division of the Company.

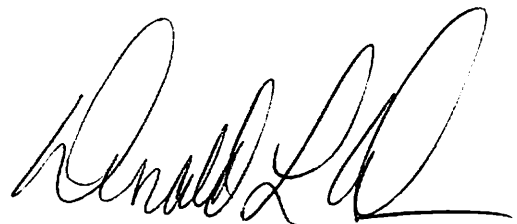
On December 1, 2010, we completed the acquisition of substantially all of the assets of Man & Material Lift Engineering, LLC and HB Equipment, LLC through a newly formed wholly owned subsidiary Man Lift Mfg. Co. The owner and founder of the two sellers, Jeff Bailey, accepted the position of President of Man Lift and continues to run the day-to-day operation of the new subsidiary. Eight months after closing the transaction, we remain excited about the performance and opportunities in front of us as we continue to grow and expand Man Lift's operations.

In making the acquisition of Man Lift, we were able to achieve our goal of adding to our manufacturing base with an operation that is profitable, dominant in its specialty markets and with the ability to grow substantially. It is also purposely not in the automotive aftermarket. The automotive aftermarket has been very good to UMC over the years; however, your Board believed and continues to believe that diversifying from the automotive sector was prudent given the larger macro issues that sector faces. We continue to believe that the best years for ReTech lie ahead and have undertaken many steps to enable it to continue to grow sales, profitability and utilization of assets. Our decision to diversify industries was a matter of prudence, not disappointment.

Our acquisition of Man Lift permitted us to deploy our liquid assets. It also allowed us to continue to build our overall Company in a manner that provides the ability to share services and resources in key non operation specific areas, thus permitting us to improve our overall performance by not duplicating core back office services and the costs associated with them. It also permits us to build on our manufacturing base – an area that your Board continues to believe has a bright future given the world stage on which we are required to perform in today's environment.

If we look just at our financial results for this fiscal year, the only conclusion is that we had a disappointing year. I personally choose to look beyond just the numbers of the past year and instead view the state of our organization more broadly; as I focus on the changes we have made, the addition of a new operation and the opportunities that lie ahead, I feel good about where we are and where we are going.

In a year filled with change, it is most important to say a special thanks to our dedicated employees who have embraced all the change and our shareholders for their continued support. We hope to see you at our annual meeting!



Donald L. Dunn, President & CEO

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

Operations of the Company have been broken into two distinct segments, ReTech and Man Lift in addition to a Corporate department to capture expenses that relate to the overall operation as opposed to the individual profit center. In establishing this structure we are better able to identify, reward and hold accountable individual operations. Consistent with this plan, we have implemented new incentive compensation plans for the management teams of each operation. The incentive compensation, a material part of overall compensation for senior management of the Company, is directly tied to the performance of each individual operation. Our approach is intended to maintain the entrepreneurial spirit of our operations to encourage and reward profitable growth while simultaneously developing a framework that will permit us to continue to grow the company both organically, by bolt on acquisition or, as in the case of Man Lift this year, by entry into new areas when the manufacturing environment and market conditions offer strategic opportunities.

Your Board of Directors, working with Management, has formally adopted long held beliefs relating to Values, Code of Conduct and Ethics. The long overdue adoption of these specific policies is not intended as a change; simply a codification of the culture we expect from our directors, officers and employees. We encourage you to review these policies that are posted on our website.

As noted earlier, we have consolidated our banking relationship to serve all operations and have put in place a credit facility that we believe provides adequate debt to fund our growth and opportunities for the foreseeable future, all at competitive rates and repayment terms. We were also able to add Man Lift employees to our existing benefit programs, specifically health insurance and 401(k) Plan, that permits ease of maintenance, quality coverage and at rates better than experienced by Man Lift previously. The unfortunate truth is, however, health insurance costs are anticipated to increase by double digit percentages for the coming year. We have also consolidated our insurance program to reduce the risk of gaps in coverage, provide more coverage than previously experience and at rates less than the costs incurred by ReTech and Man Lift independently in the previous year. Finally, while job costing and financial reporting is monitored and reviewed on an individual operations basis, our financial reporting function has been consolidated thus reducing our overall cost of accounting services for the company as a whole.

By consolidating these non-operation specific functions, we have been able to take advantage of our larger size and greater number of employees to reduce cost while simultaneously not imposing significant "corporate" burdens on the individual operations.

These changes together with the events noted in the Letter to Shareholders do not come without cost. A significant amount of time and cost were incurred in negotiating, completing due diligence and closing the acquisition of Man Lift. Additionally, we established a new holding company office in Lincoln, NE, as part of the plan to consolidate the non-operation specific functions discussed above. These non-recurring expenses materially and negatively impacted profits for this year. The costs specifically related to the acquisition of Man Lift were approximately $224,000, all of which were expensed this year for financial reporting purposes.

Change also requires that we carefully evaluate our markets, our allocation of resources, opportunities and challenges to ensure we continue to improve and move forward aggressively to grow our operations. At ReTech we undertook a hard evaluation of our inventory and made some difficult

but necessary decisions with regard to value and our ability to fully use the inventory we had on hand. The net result of this was a non-reoccurring reduction of inventory that negatively impacted income by approximately $500,000 for the year. Added to this was an increase of over $100,000 in inventory obsolescence reserve that further reduced income from operations. These actions that did not immediately impact cash, were coupled with defined and on ongoing efforts to ensure inventory remains at reasonable levels and inventory turns increase resulting in better utilization of assets.

ReTech overall sales increased 4.7% year over year. Volume of transfer case product rose to historic highs, increasing 7.6% from prior year. This substantial increase in volume created issues with raw parts procurement that in turn negatively impacted the cost of sales of transfer cases, reducing margins for transfer cases by 6.9% year over year. Sales of fuel pumps and brake calipers were down 8.6% and 4.8% respectively year over year. This decrease was partially offset by an improvement in margins on fuel pumps and brake calipers of 4.8% and 1.7% respectively.

After closing on the Man Lift acquisition in December, we have worked hard to transition the operation from an independent operation to a part of the family of UMC. We have lost a couple of employees in the sales area; however, the core group of dedicated and engaged employees remains. Man Lift sales accounted for nearly 30% of total sales of the overall operation while maintaining a gross margin in excess of 35%, all achieved in only eight months of operation.

For the Company as a whole, year over year, consolidated revenues increased by 48%. As noted above, Man Lift materially and positively impacted these numbers. Consolidated income from continuing operations, excluding corporate expenses and non-recurring charges, increased by more than 30% over the prior 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 the 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 of 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 AUDITORS' REPORT

To the Board of Directors
Universal Mfg. Co. and Subsidiary
Algona, Iowa

We have audited the accompanying consolidated balance sheets of Universal Mfg. Co. (a Nebraska corporation) and subsidiary as of July 31, 2011 and 2010, and the related consolidated statements of income and retained earnings, 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 financial position of Universal Mfg. Co. and subsidiary as of July 31, 2011 and 2010, and the 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.

Kiesling Associates LLP

Emmetsburg, Iowa
October 5, 2011

## UNIVERSAL MFG. CO.
## ALGONA, IOWA

## CONSOLIDATED BALANCE SHEETS
## July 31, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ - | $ 2,420,641 |
| Certificates of deposit | - | 456,156 |
| Accounts receivable: | | |
| Trade receivables | | |
| Less allowance of $32,025 and $30,407, respectively | 1,838,618 | 1,542,682 |
| Core receivable | | |
| Less allowance of $631,093 and $611,425, respectively | 398,054 | 374,980 |
| Prepaid income taxes | 155,218 | 13,288 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 1,746,358 | - |
| Interest receivable | - | 3,071 |
| Inventories | 3,767,034 | 4,022,078 |
| Prepayments | 69,521 | 18,964 |
| Deferred income taxes | 235,693 | 166,940 |
| | 8,210,496 | 9,018,800 |
| OTHER NONCURRENT ASSETS | | |
| Intangibles, net of amortization | 95,556 | - |
| Goodwill | 4,898,600 | - |
| | 4,994,156 | - |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land | 67,529 | 67,529 |
| Buildings | 1,562,997 | 1,534,693 |
| Machinery and equipment | 2,259,688 | 901,051 |
| Office equipment and software | 740,197 | 390,130 |
| Motor vehicles | 113,246 | 83,969 |
| | 4,743,657 | 2,977,372 |
| Less accumulated depreciation | 2,397,347 | 2,126,715 |
| | 2,346,310 | 850,657 |
| Property held for future use | 311,874 | 322,408 |
| | 2,658,184 | 1,173,065 |
| TOTAL ASSETS | $ 15,862,836 | $ 10,191,865 |

The accompanying notes are an integral part of these consolidated financial statements.

**UNIVERSAL MFG. CO.**
**ALGONA, IOWA**

**CONSOLIDATED BALANCE SHEETS**
**July 31, 2011 and 2010**

| LIABILITIES AND STOCKHOLDERS' EQUITY | 2011 | 2010 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | $ 260,011 | $ - |
| Accounts payable | 1,236,175 | 382,925 |
| Line of credit | 319,583 | - |
| Accrued liabilities | 726,671 | 658,969 |
| | 2,542,440 | 1,041,894 |
| LONG-TERM DEBT, less current portion | 3,584,765 | - |
| DEFERRED INCOME TAXES | 76,913 | 35,698 |
| STOCKHOLDERS' EQUITY | | |
| Common stock - $1 par value, 2,000,000 shares authorized, 860,766 and 816,000 shares issued and outstanding, respectively | 860,766 | 816,000 |
| Additional paid-in capital | 473,096 | 17,862 |
| Retained earnings | 8,324,856 | 8,280,411 |
| | 9,658,718 | 9,114,273 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 15,862,836 | $ 10,191,865 |

The accompanying notes are an integral part of these consolidated financial statements.

# UNIVERSAL MFG. CO.
# ALGONA, IOWA

## CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
## Years ended July 31, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| NET SALES | $ 15,428,884 | $ 10,413,197 |
| COST OF GOODS SOLD | (12,193,692) | (7,194,995) |
| GROSS PROFIT | 3,235,192 | 3,218,202 |
| OPERATING EXPENSES | | |
| Selling, general and administrative expenses | 2,612,075 | 2,390,658 |
| Corporate operations | 464,959 | - |
| | 3,077,034 | 2,390,658 |
| OPERATING INCOME | 158,158 | 827,544 |
| OTHER INCOME (EXPENSES) | | |
| Interest and dividend income | 6,763 | 41,698 |
| Interest expense | (106,343) | (493) |
| Gain (loss) on sale of assets | 300 | (2,292) |
| Other, net | (35,879) | (60,346) |
| | (135,159) | (21,433) |
| INCOME BEFORE INCOME TAXES | 22,999 | 806,111 |
| INCOME TAXES (BENEFIT) | (21,446) | 243,293 |
| NET INCOME | $ 44,445 | $ 562,818 |
| RETAINED EARNINGS, BEGINNING OF YEAR | $ 8,280,411 | $ 7,717,593 |
| RETAINED EARNINGS, END OF YEAR | $ 8,324,856 | $ 8,280,411 |
| Basic and Diluted Income per Common Share | $ 0.05 | $ 0.69 |

The accompanying notes are an integral part of these consolidated financial statements.

**UNIVERSAL MFG. CO.**
**ALGONA, IOWA**

## CONSOLIDATED STATEMENTS OF CASH FLOWS
**Years ended July 31, 2011 and 2010**

| | 2011 | 2010 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 44,445 | $ 562,818 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 301,806 | 120,221 |
| Deferred income taxes | (27,538) | (29,642) |
| (Gain) loss on sale of assets | (300) | 2,292 |
| Changes in assets and liabilities: | | |
| (Increase) Decrease in: | | |
| Receivables | (315,939) | 223,066 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (1,687,709) | - |
| Inventories | 555,044 | (372,701) |
| Prepayments | (192,487) | 115,245 |
| Increase (Decrease) in: | | |
| Accounts payable | 817,525 | (199,046) |
| Accrued expenses | 67,702 | 178,899 |
| Net cash provided by (used in) operating activities | (437,451) | 601,152 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (81,081) | (99,449) |
| Purchases of certificates of deposits | - | (534,906) |
| Proceeds from sales\maturities of certificates of deposits | 456,156 | 2,160,322 |
| Purchase of Man Lift Mfg. Co. | (4,022,924) | - |
| Proceeds from sale of assets | 300 | 4,700 |
| Net cash provided by (used in) investing activities | (3,647,549) | 1,530,667 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from long-term borrowings | 1,500,000 | - |
| Repayment of long-term debt | (155,224) | - |
| Proceeds from line of credit | 804,243 | 152,500 |
| Repayment of line of credit | (484,660) | (152,500) |
| Net cash provided by financing activities | 1,664,359 | - |
| Net Increase (Decrease) in Cash and Cash Equivalents | (2,420,641) | 2,131,819 |
| Cash and Cash Equivalents at Beginning of Year | 2,420,641 | 288,822 |
| Cash and Cash Equivalents at End of Year | $ - | $ 2,420,641 |

The accompanying notes are an integral part of these consolidated financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations**

Universal Mfg. Co. (the "Company") has been engaged in the business of remanufacturing and/or distribution, on a wholesale basis, electric fuel pumps, transfer cases, calipers, transmission assemblies, and other automotive parts for all makes and models of vehicles. The principal markets for the Company's products are automotive dealers, jobbers, repair shops and other automotive parts distributors located throughout the United States and Canada.

During 2010, the Company formed Man Lift Mfg. Co. which acquired certain assets and 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. For acquisition details see Note 2.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the parent company, Universal Mfg. Co., and its 100%owned subsidiary, Man Lift Mfg. Co. All material intercompany transactions have been eliminated in consolidation.

**Cash Equivalents**

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents. The Company reclassifies cash overdrafts to accounts payable. Cash overdrafts included in accounts payable was $492,368 and $0 at July 31, 2011 and 2010, respectively.

**Accounts Receivable**

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.

**Inventories**

Inventories constituting approximately 93% and 100% of total inventories at July 31, 2011 and 2010, respectively, are stated at cost using the lastin, firstout (LIFO). In addition, inventories are valued at original cost plus certain costs and expenses that relate to manufacturing and overhead. The inventory valuation for federal tax purposes is greater than the valuation recorded in accordance with accounting principles generally accepted in the United States of America due to the capitalization of general and administrative expenses in conformity with Internal Revenue Code, Section 263(A) and obsolescence reserves. Other inventories have been stated at cost, principally using the firstin firstout (FIFO) method.

**Goodwill and Intangibles**

Goodwill and intangible assets deemed to have indefinite lives are stated at the lower of cost or fair value. These assets are subject to periodic impairment tests. Intangible assets with definite lives are amortized.

**Property, Plant and Equipment**

Property, plant and equipment are recorded at cost. Depreciation expense is computed using accelerated methods for both financial reporting and tax purposes 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 | Decreciation Method | Lives |
|---|---|---|
| Buildings | Straight-line and declining balance | 10-39 years |
| Machinery and equipment | Declining balance | 7-10 years |
| Office equipment and software | Declining balance | 3-7 years |
| Motor vehicles | Declining balance | 3-5 years |

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

**Long-Lived Assets**

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

**Income Taxes**

The Company files a consolidated federal tax return with its subsidiary for income tax purposes. For financial reporting purposes, income taxes are presented as if each member of the consolidated group were a separate taxpayer.

Income taxes are accounted for using a liability method and provide for the tax effects of transactions reported in the consolidated financial statements including both taxes currently due and deferred. Deferred taxes are adjusted to reflect deferred tax consequences at current enacted tax rates. 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 taxes arise from differences between the book and tax basis of plant assets, inventory obsolescence reserves, goodwill, allowance for bad debts, accrued self insurance liabilities and accrued vacation pay. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible, when the assets and liabilities are recovered or settled.

**Revenue and Cost Recognition**

Universal Mfg Co.'s revenue recognition policy requires the recognition of sales 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. The Company generally records sales upon shipment of product to customers and transfer of title under standard commercial terms.

Man Lift Mfg. Co. revenues are recognized on the percentageofcompletion method, measured by the percentage of total costs incurred to date to estimated total costs for each contract. This method is used because management considers expended costs to be the best available measure of progress on these contracts.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. General and administrative expenses are expensed as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The asset, "Cost and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The

liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billing in excess of revenues recognized. Substantially all contract retainage is expected to be collected within one year.

**Use of Estimates**

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, 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. Due to uncertainties in the process of estimating the progress toward completion on uncompleted jobs, it is at least reasonably possible that gross profit on those jobs will be revised in the nearterm, and those revisions may be material.

Management has evaluated subsequent events through October 5, 2011, the date the consolidated financial statements were available for issue.

**Warranties**

The Company gives a one year warranty on certain products manufactured and sold. Such warranty is in respect of the Company's undertaking to repair or replace those items that fail to perform satisfactorily upon meeting the terms and conditions set by the Company. A provision for warranty is calculated and recognized for each type of such product based on available past historical data on the levels of repairs and returns.

**Net Income Per Common Share**

Net income per common share for 2011 and 2010 was computed by dividing the weighted average number of shares of common stock outstanding into the net income. The weighted average number of shares of common stock outstanding for the years ended July 31, 2011 and 2010 were 860,766 and 816,000, respectively.

**Fair Value Measurements**

Recent accounting guidance for financial assets and liabilities presented at fair value defines "fair value", establishes a framework for measuring fair value, and expands disclosures related to fair value measurements. The guidance does not expand the use of fair value measurements in financial statements, but rather standardizes its definition and application in generally accepted accounting principles. The guidance provides for the use of three levels of input in determining fair value measurements. (Level 1 quoted market prices; Level 2 observable inputs of quoted market prices for similar or inactive items; and Level 3 unobservable inputs.)

**Reclassifications**

Certain reclassifications have been made to the 2010 consolidated financial statements to conform with the 2011 presentation.

## 2. ACQUISITION

Effective December 1, 2010, the Company acquired substantially all the assets of Man & Material Lift Engineering, LLC and HB Equipment, LLC through a newly formed subsidiary, Man Lift Mfg. Co. (Man Lift) in a business combination accounted for as a purchase. Operating results for Man Lift were included in the consolidated financial statements for eight months of 2011. The acquisition related costs of approximately $224,000 are included as corporate operations expense on the consolidated statements of income.

Total assets acquired were $7,058,649 as of December 1, 2010. The amount exceeding the fair value was $4,898,600 and was recorded as goodwill. For tax purposes, the Company expects to amortize goodwill over a period of fifteen years.

The following table summarizes the estimated fair value of the assets and liabilities assumed at the date of the acquisition. Additional details regarding the goodwill and intangible are in Note 5 .

| | |
|---|---|
| Property, plant and equipment | $ 1,701,400 |
| Intangible assets | 100,000 |
| Goodwill | 4,898,600 |
| Current assets | 358,649 |
| | 7,058,649 |
| Curretn liabilities | 35,725 |
| Promissory note to seller | 2,500,000 |
| Equity issued to seller | 500,000 |
| | 3,035,725 |
| Cash paid for acquisition | $ 4,022,924 |

## 3. COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS ON UNCOMPLETED CONTRACTS

| | 2011 |
|---|---|
| Costs incurred on uncompleted contracts | $ 2,391,266 |
| Estimated earnings | 513,738 |
| | 2,905,004 |
| Less billings to date | 1,158,646 |
| | $ 1,746,358 |

## 4. INVENTORIES

Inventories consisted of the following as of July 31, 2011 and 2010, respectively:

| | 2011 | 2010 |
|---|---|---|
| Inventories: | | |
| Product core | $ 1,271,334 | $ 1,316,486 |
| Raw materials | 2,170,005 | 2,023,765 |
| Finished small parts | 1,341,532 | 1,687,743 |
| Inventories valued on the LIFO method | 4,782,871 | 5,027,994 |
| Other methods, principally FIFO | 251,590 | - |
| | 5,044,461 | 5,027,994 |
| LIFO reserves | (958,286) | (791,618) |
| Obselescence reserves | (319,141) | (214,298) |
| Total inventories | 3,767,034 | 4,022,078 |

## 5. GOODWILL AND INTANGIBLES

Goodwill consists of the following:

| | 2011 |
|---|---|
| Balance Beginning of Year | $ - |
| Goodwill acquired | 4,898,600 |
| Balance End of Year | $ 4,898,600 |

Intangible assets at July 31 consist of the following:

| | Gross Amount | Accumulated Amortization |
|---|---|---|
| Amortized Intangibles | | |
| Noncomplete | $ 100,000 | $ 4,444 |

Amortization expense was $4,444 for the year ended July 31, 2011.

Estimated amortization expense for the next five years is:

| | |
|---|---|
| 2012 | $ 20,000 |
| 2013 | 20,000 |
| 2014 | 20,000 |
| 2015 | 20,000 |
| 2016 | 15,556 |

The Company annually assesses its recorded balances of goodwill for impairment. As a result, the Company determined no impairment needed to be recorded for the year ended July 31, 2011.

## 6. LINE OF CREDIT

As of July 31, 2011 the Company has an agreement with Security First Bank for a line of credit up to $1,500,000. The approved line of credit is available until December 1, 2011. Interest accrued at 3.75% on the principal balance through July 31, 2011. The variable interest rate will be based on the Wall Street Journal U.S. Prime Rate. After maturity or acceleration, interest will accrue on the unpaid principal balance of this note at 16% until paid in full. At July 31, 2011, the Company had $319,583 outstanding on this line of credit.

## 7. LONG TERM DEBT

Long term debt consists of:

| | 2011 |
|---|---|
| Security First Bank - Fixed 5% | $ 1,420,964 |
| Man & Material Lift Engineering, LLC and HB Equipment, LLS - Variable 3.25% | 2,423,812 |
| Total long-term debt | 3,844,776 |
| Less current portion | 260,011 |
| | $ 3,584,765 |

The annual requirements for principal payments on lang-term debt for the next five years are as follows:

| | |
|---|---|
| 2012 | $ 260,011 |
| 2013 | 266,512 |
| 2014 | 277,725 |
| 2015 | 289,433 |
| 2016 | 2,009,609 |

Substantially all assets of the Company are pledged as security for the longterm debt under certain loan agreement with Security First Bank. This mortgage note is to be repaid in equal monthly installments covering principal and interest over a period of ten years.

The security and loan agreement underlying the Security First Bank note contains certain restrictions on dividends to stockholders, capital improvement limitations, and borrower shall not incur or contract any new debt. The borrower shall maintain a minimum total bank debt to equity ratio of 1 to 1 and lender term debt to free cash flow coverage ratio of 1.75.

The Company also has a promissory note with Man & Material Lift Engineering, LLC and HB Engineering, LLC. Interest accrues at a rate of 3.25%, amortized over fifteen years with payments to be made in monthly installments over a period of fiftynine months. The variable interest rate is adjusted on a quarterly basis, to a rate equal to prime rate of interest, but not to exceed 9%.

## 8. INCOME TAXES

Income taxes reflected in the Consolidated Statements of Income consist of the following:

| | 2011 | 2010 |
|---|---|---|
| Federal income taxes: | | |
| Current tax expense | $ 3,027 | $ 263,314 |
| Deferred tax benefit | (26,162) | (27,918) |
| State income taxes: | | |
| Current tax expense | 3,065 | 9,621 |
| Deferred tax benefit | (1,376) | (1,724) |
| Total income tax expense (benefit) | (21,446) | 243,293 |

Cash paid for income taxes and estimated income taxes for 2011 and 2010 totaled $298,226 and $6,201, respectively.

Deferred federal and state tax liabilities and assets reflected in the Consolidated Balance Sheets are summarized as follows:

| | 2011 | 2010 |
|---|---|---|
| Deferred Tax Liabilities | | |
| Federal | $ 95,367 | $ 37,029 |
| State | 5,780 | 3,471 |
| Total Deferred Tax Liabilities | 101,147 | 40,500 |
| Deferred Tax Assets | | |
| Federal | 245,074 | 157,021 |
| State | 14,853 | 14,721 |
| Total Deferred Tax Assets | 259,927 | 171,742 |
| Net Deferred Tax (Assets) | $ (158,780) | $ (131,242) |
| Current Portion | $ (253,693) | $ (166,940) |
| Long-term Portion | 76,913 | 35,698 |
| Net Deferred Tax (Assets)/Liabilities | $ (158,780) | $ (131,242) |

Prepaid income taxes of $155,218 and $13,288 appearing on the Consolidated Balance Sheets at July 31, 2011 and 2010, respectively, reflect overpayments of estimated taxes.

The tax provision differs from the expense that would result from applying the federal statutory rates to income before income taxes because of state income taxes being deductible in determining taxable income, the qualified domestic production activities deduction and work opportunity credits.

The Company's federal and state income tax returns for years subsequent to 2006 remain subject to examination.

## 9. EMPLOYEE BENEFITS

401(k) Plan

The Company sponsors a 401(k) plan which is available to all employees. The Company will provide a matching contribution equal to employee contributions up to a maximum of three percent. Total expenses for the Company under the plan were approximately $39,000 and $37,800 for the years ended July 31, 2011 and 2010, respectively.

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, or nearly matching contribution, to hourly employees is thirty five cents per

hour to a maximum of 40 hours per week. Total expenses for the Company under the plan were approximately $11,200 and $12,900 for the years ended July 31, 2011 and 2010, respectively.

## 10. UNION AGREEMENT

The Company entered into an agreement with the United Automobile Aerospace and Agricultural Implement Workers of America (UAW)'s Amalgamated Local 1016 ("Union"). The Union agreement shall remain in full force and is effective from May 6, 2010, until and including May 5, 2013, and from year to year thereafter unless either party desiring to amend or terminate the Agreement shall serve upon the other written notice not later than 60 days prior to May 6, 2013.

## 11. LEASE COMMITMENTS

The Company is obligated under certain noncancelable operating leases. Assets held under these leases include the land and building for the Company's Man Lift Mfg Co. operations. The Company is also responsible for all taxes, insurance, utilities and repairs. All leases provide for renewal periods. Lease costs for the year ended July 31, 2011 was $96,250.

Minimum payments for operating leases, including leases expected to renew during 2012, having initial or remaining noncancelable terms in excess of one year are as follows:

| Year Ending December 31, | Amount |
|---|---|
| 2012 | $ 146,300 |
| 2013 | 149,226 |
| 2014 | 152,211 |
| 2015 | 155,255 |
| 2016 | 52,092 |

## 12. 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 part of the Company's business is with a major customer. The Company receives 16.46% of its sales from this customer. Amounts due from this company, included within accounts receivable on the balance sheets, were $185,352 and $183,157 at July 31, 2010 and 2009, respectively.

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.

## 13. RELATED PARTY TRANSACTIONS

An employee and officer of the board, received rent and interest income of $149,593 for the year ended July 31, 2011. The Company has also signed an agreement for the seller to receive additional compensation as an earnout opportunity based on financial performance of the Manlift business. During 2011, this was not achieved.

An additional employee and officer of the Company, is a director on the bank which the Company has depository funds and debt financing. He also has an ofcounsel relationship with a legal firm which the Company has incurred expense of approximately $65,500 and $13,200 in 2011 and 2010, respectively.

A board of director has relations to the consulting firm which received $150,000 of commission income for the year ended July 31, 2011 related to the acquisition of Man Lift Mfg. Co.

## EXECUTIVE OFFICERS

| **Robert E. Scott** | **Donald L. Dunn** | **R. Brad Harse** |
|---|---|---|
| Chairman of the Board | President & CEO | Secretary/Treasure |

## DIRECTORS

**JEFFREY H. BAILEY**
President
Man Lift Mfg. Co.
Cudahy, Wisconsin

**NED L. EINFALT**
Retired
Scotts Bluff, Nebraska

**DONALD L. DUNN**
Chief Executive Officer and President
Universal Mfg. Co.
Lincoln, Nebraska

**R. BRAD HARSE**
Sr. Vice President and Principal
BCC Advisers, L.L.C.
Lincoln, Nebraska

**JEFF A. EINFALT**
Consultant to Kinder Porter Scott Foundation
Lincoln, Nebraska

**RICHARD E. McFAYDEN**
Perrigrine Partners, a Real Estate & Investment Partnership
Omaha, Nebraska

**P. KEVIN POPE**
President
Pen-Link, Ltd.
Lincoln, Nebraska

**ROBERT E. SCOTT**
President
Kinport Corporation
Lincoln, Nebraska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