UNIVERSAL MFG. CO.

Annual Report

2013

President's Message to Our Stockholders

I am pleased to report that my optimism reported last year in this letter, after acknowledging disappointing and un-acceptable results, was in part realized this past year. Sales increased to over $23.6 Million, up from $15.9 Million the prior year. Additionally, our net after tax income rose to over $766,000 from a net loss of almost $234,000 the prior year, a $1 Million improvement. As I have shared with all of our employees, we need to pause and celebrate a very good year, but not for long because we need to get back to work and continue the improvements we have just started in our processes, products and people.

The year just completed was the first full year for new management at each operation. Andy Schmitt at ReTech and Phil Sprio at Man Lift have each provided great leadership. Much improvement was achieved at each operation and yet much more remains to be done. The best part is that both Andy and Phil agree with me on this point and are committed to continuing to strengthen each operation.

People define the strength of all organizations and ours is no exception. At year end we had grown to 116 employees. Much time and effort has been expended to engage employees and build a positive, dedicated, trusting and respectful culture. We have made great strides and I thank all of our employees for their effort and continued commitment to our culture, our growth and our success.

Our cultural changes coupled with our process improvements have provided us a platform to continue to grow revenues substantially without material capital cost. Our focus in the coming year is to strengthen and deepen our relationships with customers, dig deeper into the markets we currently serve and find new and additional markets to serve. We continue in our belief that we are not running a dash; instead, our view is for the long term and we remain committed to manufacturing quality products that are differentiated by other than price.

We have made great progress; we had a good not great year, we grew sales, we grew profits and we improved our processes and structure. One year does not make a success story and nobody on our team is satisfied with what we have achieved. The good news is that we are in a better position to generate more sales, perform more efficiently and continue to grow both revenues and profits in the future. Thank you for your continued support.

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 better than the prior year and exceeded our fiscal year budget overall. Sales increased by nearly 48% year over year and net after tax income increased from an operating loss of $234,000 to a gain of $766,000 or $.90 per share. Gross profit rose to 21.9% from 20.2% the prior year and Operating Income for the year was 6.15% compared to a loss of over $203,000 the prior year. Increased sales was principally achieved through growth in revenue at Man Lift with sales growing from $5.7 Million in FY2012 to $12.9 Million this year. ReTech sales increased year over year from $10.2 Million in FY 2012 to $10.7 Million in FY2013.

At Man Lift we grew our work force significantly, 40% increase, we worked diligently to develop a culture of trust, respect and commitment and we addressed important process issues including safety, bills of material, job process from estimating through final shipment and every step in-between. We improved our telephone system, rewired our internal data system, began the update of our new website and marketing efforts and developed some new and exciting products. And while doing all of this, we grew sales by 126% year over year and exceeded our aggressive budget for sales by over 40%, with gross profit of 21.14% and operating income of 10.36%.

We saw substantial growth in our Explosion Proof ("EX") lift market where we shipped 67 units combining both scissor and boom lifts principally for the airplane painting industry. We also saw growth into new markets - designing, manufacturing and delivering new products for the food industry, a modified special market material handling unit and development of a new option for lifts for use in the construction industry. The latter product is known as the SHU, a product designed to address a perennial problem in the construction industry working closely with the industry representatives. The development of new markets, new customers and products bodes well for the future growth of the operation.

President Phil Sprio and his VP of Operations, Joe Banks, have done an outstanding job in growing and maturing the Man Lift operation. The really good part is neither is satisfied with the results and they certainly are not spending time celebrating; instead, they continue to look for ways to improve processes, grow talent and grow sales and profits.

ReTech also had a solid year. Sales increased 5.4% year over year, although sales were 6.7% under budget. Operating income was 4.5% over budget and 340% over prior year. These results were achieved while we invested significantly in LEAN manufacturing projects ($120,000), worked hard to ensure we had the right inventory while recognizing the true value of a portion of our inventory, through increases to our obsolescence reserve ($142,000), and materially refocused our sales approach and plan. We saw continued strength in our Transfer Case business, 62.87% of total net sales and 16.3% increase year over year. Our AFS line of fuel pumps also saw a significant increase, 30.5% increase year over year. Caliper sales decreased 21% year over year and Remanufactured fuel pumps declined by nearly 48% as we transition to the AFS line due to market pressure.

We introduced a new product line this past year, front differentials and disconnects; introducing a new line is a process and has taken longer than we anticipated. We continue to believe it will be a positive addition to our drive train product offering. Additionally, as of this writing we have materially supplemented our management team and sales staff. Andy Schmitt, President of ReTech, has worked tirelessly to understand our operation and through a true commitment to LEAN, has substantially reduced space used by our current product mix resulting in greater efficiency and the opportunity to introduce new products or materially increase production

of current products without need for additional footprint. Our management team has grown, including a sales team growing from two to four full time members now working under the guidance of Paul Van Camp, Director of Sales & Marketing and adding a new Operations Manager in this new fiscal year. The team is poised to continue the improvements made over the past year and continue the profitable growth of this mature but stable operation.

Corporate wide we have also made some changes and had some significant progress. We elected to allocate expenses related to accounting and human resources between all operations, resulting in a $52,000 increase in Corporate Expenses. Actual cost did not change materially, only where the expense was recognized. Operations generated in excess of $1.8 Million of cash flow. Given this strong position, at the end of August of 2013 we paid off all of our bank term debt that we undertook when we purchased Man Lift at the end of calendar year 2010. We still have carryback debt; however, we again ended the year in a strong cash position with no current use of our line of credit, which has been increased to $2.5 Million. Our Audit Committee also decided to make a change in our auditors for this year. McGladrey, LLP was selected. We had no disagreements or other issues with our prior auditors.

During the year we amended our Non-Compete Agreement with Jeff Bailey to permit him and his new company to compete in the large mobile crane market, an area we do not currently serve. In return we retired over 9,000 shares of UMC stock received by Jeff as part of the purchase of Man Lift assets. Jeff has also decided to not stand for reelection to the Board of UMC. We appreciate his contributions to the Board and our operations over the past almost three years.

As reported last year, we continue to make material investments in people and processes; we believe the past year reflects those investments. We intend to continue to be open to opportunities and continue to work diligently to grow our operations organically, while always being mindful of other opportunities if and when they present.

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.

McGladrey

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Universal Mfg. Co. and subsidiary, which comprise the consolidated balance sheet as of July 31, 2013, and the related consolidated statements of operations, stockholders' equity and cash flows for the year 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 audit. We conducted our audit 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 subsidiary as of July 31, 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of Universal Mfg. Co. and subsidiary as of and for the year ended July 31, 2012, were audited by other auditors whose report dated October 3, 2012, expressed an unmodified opinion on those statements.

McGladrey LLP

Omaha, Nebraska
September 27, 2013

Universal Mfg. Co. and Subsidiary

Consolidated Balance Sheets
July 31, 2013 and 2012

	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,315,664	$ 313,014
Trade receivables		
Accounts receivable, less allowance of $63,500 and $73,103, respectively	2,057,230	1,778,848
Other receivables, net	265,252	466,060
Cost and estimated earnings in excess of billings on uncompleted contracts, net	389,294	630,229
Inventories	3,698,706	3,565,150
Prepaid expenses	102,387	82,867
Income tax receivable	116,905	280,259
Deferred income taxes	289,262	242,739
Total current assets	8,234,700	7,359,166
Property, plant and equipment, net	1,879,902	2,372,523
Other Noncurrent Assets:		
Intangibles, net of amortization	47,585	88,889
Goodwill	4,898,600	4,898,600
	4,946,185	4,987,489
Total assets	$ 15,060,787	$ 14,719,178
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term debt	$ 304,749	$ 267,066
Accounts payable	578,013	705,917
Accrued expenses and other liabilities	1,169,250	779,115
Total current liabilities	2,052,012	1,752,098
Noncurrent Liabilities:		
Long-term debt, less current portion	2,516,230	3,320,639
Deferred income taxes	343,536	221,503
Total noncurrent liabilities	2,859,766	3,542,142
Stockholders' Equity:		
Common stock - $1 par value, 2,000,000 shares authorized, 851,633 and 860,766 shares issued and outstanding, respectively	851,633	860,766
Additional paid-in-capital	440,103	473,096
Retained earnings	8,857,273	8,091,076
Total stockholders' equity	10,149,009	9,424,938
Total liabilities and stockholders' equity	$ 15,060,787	$ 14,719,178

See Notes to Consolidated Financial Statements.

Universal Mfg. Co. and Subsidiary

Consolidated Statements of Operations
Years Ended July 31, 2013 and 2012

	2013	2012
Net sales	$ 23,618,319	$ 15,961,319
Cost of goods sold	(18,447,568)	(12,741,044)
Gross profit	5,170,751	3,220,275
Operating expenses:		
Selling, general and administrative expenses	3,314,660	3,132,214
Other corporate operations	401,983	291,728
Total operating expenses	3,716,643	3,423,942
Operating income (loss)	1,454,108	(203,667)
Other income (expense):		
Interest expense	(141,924)	(151,949)
Gain (loss) on sale of assets	(154,906)	200
Other, net	(18,941)	9,097
Total other income (expense)	(315,771)	(142,652)
Income (loss) before income taxes	1,138,337	(346,319)
Income tax (expense) benefit	(372,140)	112,539
Net income (loss)	766,197	(233,780)
Basic and diluted income (loss) per common share	$ 0.90	$ (0.27)

See Notes to Consolidated Financial Statements.

Universal Mfg. Co. and Subsidiary

Consolidated Statements of Stockholders' Equity
Years Ended July 31, 2013 and 2012

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
Balance, July 31, 2011	$ 860,766	$ 473,096	$ 8,324,856	$ 9,658,718
Net loss	-	-	(233,780)	(233,780)
Balance, July 31, 2012	860,766	473,096	8,091,076	9,424,938
Net income	-	-	766,197	766,197
Reacquired and surrendered shares to satisfy noncompete amendment	(9,133)	(32,993)	-	(42,126)
Balance, July 31, 2013	**$ 851,633**	**$ 440,103**	**$ 8,857,273**	**$ 10,149,009**

See Notes to Consolidated Financial Statements.

Universal Mfg. Co. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended July 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Net income (loss)	**$ 766,197**	$ (233,780)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	**388,649**	392,529
Deferred income taxes	**75,510**	137,544
Loss on sale of assets	**154,906**	(200)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	**(77,574)**	(8,236)
Income tax receivable	**163,354**	(128,000)
Costs and estimated earnings in excess of billings on uncompleted contracts, net	**240,935**	1,116,129
Inventories	**(133,556)**	201,884
Prepaid expenses	**(19,520)**	(10,387)
Increase (decrease) in:		
Accounts payable	**(127,904)**	(530,258)
Accrued expenses	**390,135**	52,644
Net cash provided by operating activities	**1,821,132**	989,869
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	**(61,852)**	(100,201)
Proceeds from sales of equipment	**10,096**	-
Net cash used in investing activities	**(51,756)**	(100,201)
Cash Flows from Financing Activities:		
Repayment of long-term debt	**(766,726)**	(257,071)
Net repayment of line of credit	**-**	(319,583)
Net cash used in financing activities	**(766,726)**	(576,654)
Net increase in cash and cash equivalents	**1,002,650**	313,014
Cash and Cash Equivalents:		
Beginning	**313,014**	-
Ending	**$ 1,315,664**	$ 313,014
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	**$ 143,363**	$ 150,689
Cash paid (received) for income taxes, net	**108,492**	(125,042)
Supplemental Disclosure of Noncash Information:		
Shares reacquired in exchange for amendment to noncompete agreement	**$ 42,126**	$ -

See Notes to Consolidated Financial Statements.

Note 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 assembles 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.

The Company'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.

Principles of consolidation: The consolidated financial statements include the accounts of the parent company, Universal Mfg. Co., and its wholly 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. There were no cash overdrafts included in accounts payable at July 31, 2013. Cash overdrafts included in accounts payable were $492,368 at July 31, 2012.

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. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivables are recorded when received.

Inventories: Inventory is stated at the lower of cost or market. The cost for the majority of inventory is determined using the last in, first out (LIFO) method. The cost for other inventories is determined principally using the first in first out (FIFO) method.

Slow-moving and obsolete inventories are written down by the difference between the carrying value and management's estimate of the reduced value based on potential future uses, the likelihood that overstocked inventory will be sold and the expected selling prices of inventory. If management's ability to realize value on slow-moving inventory is less favorable than assumed, additional write-downs of inventories may be required.

Goodwill: Goodwill is not amortized, but is tested for impairment annually. Impairment occurs when the carrying value is determined to not be recoverable, thereby causing the carrying value of goodwill to exceed the fair value. If impaired, the carrying value is reduced to fair value through a charge to the statement of operations. The Company determined no impairment needed to be recorded for the years ended July 31, 2013 and 2012.

Intangible assets: Intangible assets are stated at cost, net of accumulated amortization, and are amortized over the estimated useful life using the straight-line method. Management reviews intangible assets annually to ascertain whether there are indicators that the carrying value of such assets are not recoverable. If management determines that the estimated undiscounted cash flows are not sufficient to recover the carrying value, an impairment loss is recorded for the unrecoverable amount through a charge to the statement of operations.

Note 1. Summary of Significant Accounting Policies (Continued)

Property, plant and equipment: Property, plant and equipment are recorded at cost. 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	Declining balance	7-10 years
Office equipment and software	Declining balance	3-7 years
Motor vehicles	Declining balance	3-5 year

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

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 its long-lived assets are impaired.

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 bases. 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% likelihood of being realized upon ultimate settlement. The guidance for accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Man Lift Mfg. Co. revenues are recognized on the percentage of completion method, measured by the percentage of total costs incurred to date to estimated total costs for each contract. 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. Selling, general and administrative expenses are not included in contract costs. 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.

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

Net income per common share: Net income (loss) per common share for 2013 and 2012 was computed by dividing the weighted average number of shares of common stock outstanding into the net income (loss). The weighted average number of shares of common stock outstanding for the years ended July 31, 2013 and 2012 were 854,335 and 860,766, respectively.

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. No such assets or liabilities at July 31, 2013 and 2013 are measured at fair value.

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 near term, and those revisions may be material.

Subsequent events: The Company has evaluated subsequent events through September 27, 2013, the date on which the consolidated financial statements were available to be issued.

On August 30, 2013, the Company paid off the outstanding balance on the note payable to Security First Bank.

Effective August 27, 2013, the Company refinanced the line of credit with Security First Bank. The available line of credit was increased to $2,500,000 and matures on August 27, 2014. Interest accrues at a variable rate equal to the Wall Street Journal Prime Rate plus 0.5%. The line is secured by a blanket security agreement over the general business assets of the Company, excluding certain assets of Man Lift Mfg. Co.

Reclassifications: Certain reclassifications have been made to the 2012 consolidated financial statements to conform to the 2013 presentation.

Universal Mfg. Co. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts

Activity on uncompleted contracts as of July 31 was as follows:

	2013	2012
Costs incurred on uncompleted contracts	**$ 1,105,645**	$ 1,305,492
Estimated earnings	**148,281**	184,228
	1,253,926	1,489,720
Less billings to date	**864,632**	859,491
	$ 389,294	$ 630,229

	2013	2012
Costs and estimated earnings in excess of billings on uncompleted contracts	**$ 481,157**	$ 736,617
Billings in excess of costs and estimated earnings on uncompleted contracts	**(91,863)**	(106,388)
	$ 389,294	$ 630,229

Note 3. Inventories

Inventories consisted of the following as of July 31:

	2013	2012
Inventories:		
Product core	**$ 1,461,259**	$ 1,189,896
Raw materials	**1,502,680**	1,829,778
Finished small parts	**1,781,759**	1,476,636
Inventories valued on the LIFO method	**4,745,698**	4,496,310
Other methods, principally FIFO	**257,742**	328,060
	5,003,440	4,824,370
LIFO reserves	**(973,729)**	(1,019,697)
Obsolescence reserves	**(331,004)**	(239,523)
Total inventories	**$ 3,698,707**	$ 3,565,150

Note 4. Property, Plant and Equipment

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

	2013	2012
Land	$ **67,529**	$ 67,529
Buildings	**1,575,717**	1,562,997
Machinery and equipment	**2,070,253**	2,254,464
Office equipment and software	**762,879**	762,287
Motor vehicles	**94,504**	113,246
	4,570,882	4,760,523
Less accumulated depreciation	**2,990,201**	2,735,710
	1,580,681	2,024,813
Construction in progress	**7,950**	46,215
Property held for future use	**291,271**	301,495
	$ **1,879,902**	$ 2,372,523

Depreciation expense was $389,471 and $385,862 for the years ending July 31, 2013 and 2012, respectively.

Note 5. Line of Credit

As of July 31, 2013 the Company had an agreement with Security First Bank for a line of credit up to $1,500,000. The approved line of credit was available until April 25, 2014. Interest accrued at 3.75% on the principal balance through April 26, 2013. After this date, the interest rate would be variable and equal to the Wall Street Journal U.S. Prime Rate plus 0.5%. After maturity or default, interest would accrue on the unpaid principal balance of this note at 16% until paid in full. The line was secured by a blanket security agreement over the general business assets of the Company, excluding certain assets of Man Lift Mfg. Co. At July 31, 2013 and 2012, the Company had no outstanding line of credit balance.

Universal Mfg. Co. and Subsidiary

Notes to Consolidated Financial Statements

Note 6. Total Long-Term Debt

Long-term debt as of July 31 consists of:

	2013	2012
Note payable to Security First Bank, interest fixed at 5%, payable in monthly installments, maturing June 2017	$ **669,610**	$ 1,297,904
Related party note payable to Man & Material Lift Engineering, LLC and HB Equipment, LLC, variable interest at the Wall Street Journal prime rate (3.25% at July 31, 2013) with a cap of 9%, payable in fixed monthly installments, maturing December 2015	**2,151,369**	2,289,801
Total long-term debt	**2,820,979**	3,587,705
Less current portion	**304,749**	267,066
	$ **2,516,230**	$ 3,320,639

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

2014	$ 305,000
2015	318,000
2016	2,039,000
2017	159,000

Substantially all assets of the Company are pledged as security for the long-term debt under certain loan agreement with Security First Bank with the exception of certain Man Lift Mfg. Co. property, plant and equipment pledged to Man & Material Lift Engineering, LLC and HB Equipment, LLC related to the promissory note described above. A member from the Company's board of directors has ownership interests in Man & Material Lift Engineering, LLC and HB Equipment, LLC. As such, this note is classified as a related party instrument.

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 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 to 1 and a lender term debt to free cash flow coverage ratio of 1.75.

Note 7. Income Taxes

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

	2013	2012
Deferred tax liability:		
Property, plant and equipment	$ 94,616	$ 101,715
Intangible assets	248,920	119,788
Prepaid expenses	33,082	-
	376,618	221,503
Deferred tax assets:		
Allowance for doubtful accounts	(22,860)	(26,317)
Inventory reserve	(119,161)	(86,228)
Warranty reserve	(26,965)	(26,717)
Inventory capitalization	(25,077)	(20,531)
Accrued vacation	(80,874)	(35,626)
Self funded insurance	(47,407)	(33,273)
Other	-	(14,047)
	(322,344)	(242,739)
	$ 54,274	$ (21,236)

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

	2013	2012
Long-term liabilities	$ 343,536	$ 221,503
Current (assets)	(289,262)	(242,739)
	$ 54,274	$ (21,236)

The provision for income taxes charged to income from continuing operations for the year ended July 31 consists of the following:

	2013	2012
Current:		
Federal	$ 278,730	$ (257,638)
State	17,900	7,555
Deferred	75,510	137,544
	$ 372,140	$ (112,539)

Note 7. Income Taxes (Continued)

A reconciliation of the provision for income taxes (benefit) and the amount computed by applying the federal statutory rate to income (loss) before income tax expense is as follows:

	2013	2012
Computed income tax expense (benefit) at federal statutory rate of 34%	$ 387,035	$ (117,748)
Meals and entertainment expense	5,867	5,446
Domestic production activities deduction	(28,900)	-
Other, net	8,138	(237)
	$ 372,140	$ (112,539)

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 2009.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended July 31, 2013 and 2012, the Company did not recognize any interest and/or penalties. As of July 31, 2013 and 2012, the Company did not have any balances accrued for interest and/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 contribution up to 15% of their compensation to the plan. 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 $70,000 and $76,000 for the years ended July 31, 2013 and 2012, 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 to hourly employees is forty cents per hour to a maximum of 40 hours per week. Total expenses for the Company under the Plan were approximately $10,000 each year for the years ended July 31, 2013 and 2012, 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, 2013, until and including May 5, 2016, 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 Man Lift Mfg. Co. operations. The Company is also responsible for all taxes, insurance, utilities and repairs. All leases provide for renewal periods. Lease payments for the years ended July 31, 2013 and 2012 were $140,646 and $146,300, respectively.

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

Year Ending July 31,	Amount
2014	$ 149,000
2015	149,000
2016	149,000
2017	149,000
2018	146,000
Thereafter	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, 2013, the Company had one customer that accounted for 20.1% of consolidated net sales. Amounts due from this major customer included within accounts receivable on the consolidated balance sheets were $3,087 as of July 31, 2013. For the year ended July 31, 2012, the Company had a different customer that accounted for 16.0% of consolidated net sales. Amounts due from this major customer included within accounts receivable on the consolidated balance sheets were $133,381 at July 31, 2012.

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 12. Other Related Party Transactions

A member of the board of directors received interest and rental income of $72,369 and $223,089 for the years ended July 31, 2013 and 2012, respectively. The Company has also signed an agreement for the seller to receive additional compensation as an earnout opportunity based on financial performance of the Man Lift Mfg. Co. operations. During 2013 and 2012, no earnout was earned or paid. This member is also associated with a consulting firm which the Company incurred expense of $142,400 in 2013. No such expense was incurred in 2012.

An additional 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 which the Company incurred expense of $23,400 and $11,900 in 2013 and 2012, respectively.

EXECUTIVE OFFICERS

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Chairman of the Board

Donald L. Dunn
President & CEO

R. Brad Harse
Secretary/Treasure

DIRECTORS

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President
Kinport Corporation
Cudahy, Wisconsin

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

R. BRAD HARSE
Sr. Vice President and Principal
BCC Advisors, L.L.C.
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JEFFREY H. BAILEY
Principal
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