UNIVERSAL MFG. CO.

ANNUAL REPORT TO SHAREHOLDERS

2014

President's Message to Our Shareholders

Our plan to mature and continue to grow our Company remained on track during our fiscal year 2014. Sales grew 19.8% to $27.7 Million for the year, up from $23.1 Million the prior year. Net after tax income increased by 118% year over year from $766 Thousand to $1.671 Million. On a weighted average per share basis, net income increased to $1.96 per share from $0.90 per share on a fully diluted basis. We are pleased with our progress overall; that said, we are not where we want to be in either size or maturity as an organization and will continue to work diligently to do a better job of both as we move forward.

Growth at our Man Lift operation continued to drive our growth; Phil Sprio our President for the operation and his team hit another home run; we tell Phil that doubles are good, but we do like home runs! The operation is currently dependent on large jobs that we have been fortunate enough to land the past two years. We continue to develop the large job work; at the same time, we are working diligently to develop for the longer term consistent, repeatable work that will help us more fully mature our operation.

This year we took another step forward in the development of our Company. In December we hired Dawn Sutter as CFO, a newly created position. Dawn offices with me – necessitating a new office – and we have consolidated all cash management and employee benefit program management at our corporate office. These functions were previously handled at our ReTech operation in Algona, IA. Our intention has been and continues to be that operations need to be laser focused on operations – developing, designing, manufacturing, marketing and selling products. As for the corporate office, we are not building a bureaucracy – we now have three employees, including Dawn and myself, and do not see that growing any time soon.

Our growth does present new opportunities. Both our depth of employees and physical space are issues we must address to support continued growth. This coming year we intend to strengthen and deepen our organization. This may potentially create a short term reduction of gross margin; however, long term it is essential to support the growth we anticipate. As to the physical space, we have been and will continue to explore and evaluate a variety of ways to address the issue.

Each day brings new challenges and new opportunities; we are daily embracing the challenges and having fun in pursuing the new opportunities. We continue to run the race for the long term, stopping only briefly to celebrate another fine year made possible by our dedicated employees and each of you. Thank you for your continued support.

Sincerely,

Donald L. Dunn
President & CEO

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

Overall results for UMC were substantially improved over our prior year and exceeded our fiscal year budget overall. Sales grew to $27.7 Million, increasing by almost 20% year over year and net after tax income increased 118% year over year to $1.671 Million or $1.96 per share on a fully diluted basis. Gross profit rose to 27.7% from 21.9% the prior year and Operating Income for the year was 10.1% compared to 6.1% the prior year. Increased sales was principally achieved through growth in revenue at Man Lift with sales growing from $12.9 Million in FY2013 to $16.9 Million this year. ReTech sales from continuing operations increased year over year from $10.2 Million in FY 2013 to $10.8 Million in FY2014.

Man Lift continued its remarkable growth. Sales increased 31.0% over prior year and was 11.9% above our aggressive budget. For the year we achieved gross profit of 31.2% and operating income of 18.9%. We made virtually no capital expenditures for the year and ran all year with a very flat and limited workforce. Continued growth requires that we grow our team, deepen our bench strength and address our physical plant limitations.

We again saw growth in our Explosion Proof ("EX") lift market where we shipped 72 units combining both scissor and boom lifts, an increase from 67 the prior year. While the airplane painting industry remained key, we were able to sell units into the shipbuilding market and aluminum smelter industry for the first time this past year. Man Lift continues to be dependent on large orders and the past year was no exception; however, our new customer count grew significantly during the past year. The continued development of new markets, new customers and products bodes well for the continued growth of the operation. This growth does not come without cost. We are quickly nearing capacity in our current facility and as noted above, our flat and limited workforce is an issue that must be addressed.

Man Lift has been driven by Phil Sprio, President. He continues to demonstrate leadership, ingenuity and boundless energy. The ability of Man Lift to continue on its current trajectory requires that it continue to explore opportunities for deepening relationships with current customers, developing new markets, new customers and new products to serve them. Our ability to develop additional team players and increase our production capacity is a key to the continued growth and success of Man Lift.

ReTech had a year addressing needs. ReTech grew sales marginally for the year, but substantially less than we budgeted and expected. Given the sluggish nature of the operation, I elected to make a leadership change at ReTech just after the end of our fiscal year. Darryl Anderson is our new President at ReTech. Darryl has been with us for a little over a year, as Director of Operations. He has hit the ground running in his new position. ReTech is in a very mature market. It has product offerings where we remain a market leader. Unfortunately, that is not true of all products; some are being impacted daily by overseas competition. Given the macro changes in the market, we elected to discontinue production and marketing of remanufactured fuel pumps as of the end of the fiscal year just ended. Please see the accompanying audit for a more detailed explanation of the reporting of this change. Sales in this product line had decreased so substantially in the past several years we do not see the discontinuance of this product line to have a material change on forward looking sales. We also took steps to shore up the balance sheet of ReTech. In addition to our discontinued ops charge, we substantially increased our warranty reserve and created a sales returns reserve, in the aggregate these three categories created a $519 Thousand charge to earnings. We also accrued on our balance sheet, for the first time, an expense related to estimated core liability in an amount of over $313K. Never fun, but necessary to properly reflect where we are and to prepare us for moving forward.

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

Operationally at ReTech, sales grew 5.8% from continuing operations, gross margins were 22.3% and operating income was 3.2%. Excluding the onetime historic charge for warranty reserve and sales return reserves, gross margins would have been 24.6% and operating income 5.6%.

We have made additional material changes this past year. In December 2013, we expanded our management team by adding Dawn Sutter as CFO, a new position for UMC. Dawn has brought great value to the organization in her short time on the team. As part of this change, we have moved all cash management and employee benefit program management to our corporate office, thus necessitating a move to our new office.

As reported last year, in August 2013 we repaid our term debt related to the Man Lift acquisition and Jeff Bailey, the prior owner of the Man Lift operation, did not stand for reelection to our Board. This year we redeemed from an entity owned by Jeff the remaining shares of stock issued as part of the purchase price when we acquired the Man Lift operation. As part of the redemption, at a price of $11.23/share, we agreed to modify Jeff's non-compete to narrow its scope to relate only to explosion proof products and extended its term to run through May 2019. And finally related to the Man Lift acquisition, we repaid an entity owned by Jeff the balance of debt still owed relating to the acquisition. The debt, coming due in November 2015, was replaced with a new term note fully amortizing over 10 years at a fixed rate of 4% per annum for the full term.

Finally, we were able to sell a property owned in Peoria, Illinois, the last remnant of the distribution business we sold many years ago. The proceeds from the sale were used in the operation of the business.

We continue to explore for additional opportunities and remain committed to our manufacturing base. Opportunities may present that permit an expansion of a current operation, development of a new product or market or something entirely new. We are led by a philosophy of growing both top and bottom lines and not becoming overly focused on top line growth or protecting our bottom line in the short term to the detriment of long term success.

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.

Universal Mfg. Co. and Subsidiary

Consolidated Financial Report
With Independent Auditor's Report Thereon
July 31, 2014 and 2013

Contents

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 consolidated financial statements of Universal Mfg. Co. and Subsidiary, which comprise the consolidated balance sheets as of July 31, 2014 and 2013, and 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 audit. 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 Subsidiary as of July 31, 2014 and 2013, 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.

McGladrey LLP

Omaha, Nebraska
September 29, 2014

Universal Mfg. Co. and Subsidiary

Consolidated Balance Sheets
July 31, 2014 and 2013

	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,307,728	$ 1,315,664
Receivables:		
Trade receivables, less allowance of $105,309 and $63,500, respectively	3,835,061	2,057,230
Other receivables, net	275,757	265,252
Cost and estimated earnings in excess of billings on uncompleted contracts, net	600,838	389,294
Inventories, net	3,411,171	3,698,706
Prepaid expenses	141,444	102,387
Income tax receivable	102,862	116,905
Deferred income taxes	515,462	289,262
Total current assets	11,190,323	8,234,700
Property, plant and equipment, net	1,372,690	1,879,902
Other Noncurrent Assets:		
Intangibles, net of amortization	43,727	47,585
Goodwill	4,898,600	4,898,600
	4,942,327	4,946,185
Total assets	$ 17,505,340	$ 15,060,787
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term debt	$ 167,772	$ 304,749
Accounts payable	1,028,368	578,013
Accrued expenses and other liabilities	2,505,905	1,169,250
Total current liabilities	3,702,045	2,052,012
Noncurrent Liabilities:		
Long-term debt, less current portion	1,844,976	2,516,230
Deferred income taxes	485,575	343,536
Total noncurrent liabilities	2,330,551	2,859,766
Stockholders' Equity:		
Common stock - $1 par value, 2,000,000 shares authorized, 816,000 and 851,633 shares issued and outstanding, respectively	816,000	851,633
Additional paid-in-capital	128,392	440,103
Retained earnings	10,528,352	8,857,273
Total stockholders' equity	11,472,744	10,149,009
Total liabilities and stockholders' equity	$ 17,505,340	$ 15,060,787

See Notes to Consolidated Financial Statements.

Universal Mfg. Co. and Subsidiary

Consolidated Statements of Operations
Years Ended July 31, 2014 and 2013

	2014	2013
Net sales	$ 27,717,803	$ 23,138,703
Cost of goods sold	(20,035,627)	(18,019,690)
Gross profit	7,682,176	5,119,013
Operating expenses:		
Selling, general and administrative expenses	4,144,846	3,314,660
Other corporate operations	729,673	401,983
Total operating expenses	4,874,519	3,716,643
Operating income	2,807,657	1,402,370
Other income (expense):		
Interest expense	(69,001)	(141,924)
Gain (loss) on sale of assets	60,647	(154,906)
Other, net	3,229	(18,941)
Total other expense	(5,125)	(315,771)
Income before income taxes	2,802,532	1,086,599
Income tax expense	(876,442)	(355,226)
Income from continuing operations	1,926,090	731,373
Discontinued operations:		
Income (loss) from discontinued operations, net of tax	(255,011)	34,824
Net income	$ 1,671,079	$ 766,197
Income per common share - basic		
Income from continuing operations	$ 2.28	$ 0.86
Income (loss) from discontinued operations, net of tax	(0.30)	0.04
Net income	$ 1.98	$ 0.90
Income per common share - diluted		
Income from continuing operations	$ 2.26	$ 0.86
Income (loss) from discontinued operations, net of tax	(0.30)	0.04
Net income	$ 1.96	$ 0.90

See Notes to Consolidated Financial Statements.

Universal Mfg. Co. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity
Years Ended July 31, 2014 and 2013

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
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
Net income	-	-	1,671,079	1,671,079
Repurchase and retirement of common stock	(35,633)	(364,367)	-	(400,000)
Non-cash stock-based compensation	-	52,656	-	52,656
Balance, July 31, 2014	**$ 816,000**	**$ 128,392**	**$ 10,528,352**	**$ 11,472,744**

See Notes to Consolidated Financial Statements.

Universal Mfg. Co. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended July 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Net income	$ 1,671,079	$ 766,197
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	346,023	388,649
Deferred income taxes	(84,161)	75,510
(Gain) loss on sale of assets	(60,647)	154,906
Non-cash stock-based compensation	52,656	-
Changes in assets and liabilities:		
Receivables	(1,788,336)	(77,574)
Income tax receivable	14,043	163,354
Costs and estimated earnings in excess of billings on uncompleted contracts, net	(211,544)	240,935
Inventories	287,535	(133,556)
Prepaid expenses	(39,057)	(19,520)
Accounts payable	450,355	(127,904)
Accrued expenses and other liabilities	1,336,655	390,135
Net cash provided by operating activities	1,974,601	1,821,132
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(157,881)	(61,852)
Proceeds from sales of property and equipment	383,575	10,096
Net cash provided by (used in) investing activities	225,694	(51,756)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	2,012,748	-
Repayment of long-term debt	(2,820,979)	(766,726)
Repurchase of common stock	(400,000)	-
Net cash used in financing activities	(1,208,231)	(766,726)
Net increase in cash and cash equivalents	992,064	1,002,650
Cash and Cash Equivalents:		
Beginning	1,315,664	313,014
Ending	$ 2,307,728	$ 1,315,664
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 75,385	$ 143,363
Cash paid for income taxes, net	701,603	108,492
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, of electric fuel pumps, transfer cases, calipers, transmission assembles and other automotive parts for many 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.

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 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.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2014 and 2013, 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 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.

Man Lift Mfg. Co. revenues are recognized on the percentage of completion method. Profit on contracts is realized on the difference between the contract price and the actual costs incurred. Revenue is 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 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 2014 and 2013 was computed by dividing the weighted average number of shares of common stock outstanding into net income. The basic weighted average number of shares of common stock outstanding for the years ended July 31, 2014 and 2013 were 845,776 and 854,335, respectively. The diluted weighted average number of shares of common stock outstanding for the years ended July 31, 2014 and 2013 were 853,787 and 854,335, respectively. The additional dilutive shares relate to outstanding stock options.

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Subsequent events: The Company has evaluated subsequent events through September 29, 2014, the date on which the consolidated financial statements were available to be issued.

Reclassifications: Certain reclassifications have been made to the 2013 consolidated financial statements to conform to the 2014 presentation.

Recently issued accounting pronouncements: In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company for the year ending in July 2018. Early application is not permitted. The Company will evaluate the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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

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

	2014	2013
Costs incurred on uncompleted contracts	**$ 3,074,521**	$ 1,105,645
Estimated earnings	**777,556**	148,281
	3,852,077	1,253,926
Less billings to date	**3,251,239**	864,632
	$ 600,838	$ 389,294

	2014	2013
Costs and estimated earnings in excess of billings on uncompleted contracts	**$ 893,729**	$ 481,157
Billings in excess of costs and estimated earnings on uncompleted contracts	**(292,891)**	(91,863)
	$ 600,838	$ 389,294

Note 3. Inventories

Inventories consisted of the following as of July 31:

		2014		2013
Inventories (on an average cost basis):				
Product core	**$**	**1,600,684**	$	1,461,259
Raw materials		**1,313,854**		1,502,680
Finished small parts		**1,569,896**		1,781,759
		4,484,434		4,745,698
LIFO reserves		**(922,611)**		(973,729)
Inventories at LIFO		**3,561,823**		3,771,969
Other methods, principally FIFO		**500,853**		257,742
Obsolescence reserves		**(651,505)**		(331,005)
	$	**3,411,171**	$	3,698,706

Note 4. Property, Plant and Equipment

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

		2014		2013
Land	**$**	**68,279**	$	68,279
Buildings		**1,567,359**		1,567,359
Machinery and equipment		**2,009,085**		2,070,253
Office equipment and software		**793,622**		762,879
Motor vehicles		**52,253**		94,504
		4,490,598		4,563,274
Less accumulated depreciation		**3,117,908**		2,990,201
		1,372,690		1,573,073
Construction in progress		**-**		7,950
Property held for future use		**-**		298,879
	$	**1,372,690**	$	1,879,902

Depreciation expense was $342,165 and $389,471 for the years ending July 31, 2014 and 2013, respectively.

Note 5. Line of Credit

As of July 31, 2014 the Company had an agreement with Security First Bank for a line of credit up to $2,500,000. The approved line of credit is available until July 24, 2015. Interest accrues on the outstanding principal balance at an annual rate equal to the Wall Street Journal U.S. Prime Rate plus 0.5% (3.75% as of July 31, 2014). 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. At July 31, 2014 and 2013, the Company had no outstanding line of credit balance.

Note 6. Total Long-Term Debt

Long-term debt as of July 31 consists of:

	2014	2013
Note payable to Security First Bank	**$ -**	$ 669,610
Note payable to Security First Bank, interest fixed at 4%, payable in monthly installments, maturing July 2024	**2,012,748**	-
Related party note payable to Man & Material Lift Engineering, LLC and HB Equipment, LLC	**-**	2,151,369
Total long-term debt	**2,012,748**	2,820,979
Less current portion	**167,772**	304,749
	$ 1,844,976	$ 2,516,230

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

2015	$ 168,000
2016	174,000
2017	182,000
2018	189,000
2019	197,000
Thereafter	1,103,000
	$ 2,013,000

Substantially all assets of the Company are pledged as security for the long-term debt with Security First Bank with the exception of certain Man Lift Mfg. Co. property, plant and equipment.

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 and a lender term debt to free cash flow coverage ratio of 1.75. The Company was in violation of the capital improvements covenant as of July 31, 2014 and obtained a waiver from the bank.

Note 7. Income Taxes

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

	2014	2013
Deferred tax liabilities:		
Property, plant and equipment	**$ 113,852**	$ 94,616
Intangible assets	**371,723**	248,920
Prepaid expenses	**46,208**	33,082
	531,783	376,618
Deferred tax assets:		
Allowance for doubtful accounts	**(37,911)**	(22,860)
Inventory reserve	**(234,542)**	(119,161)
Warranty reserve	**(136,592)**	(26,965)
Inventory capitalization	**(33,405)**	(25,077)
Accrued vacation	**(73,984)**	(80,874)
Self funded insurance	**(45,236)**	(47,407)
	(561,670)	(322,344)
	$ (29,887)	$ 54,274

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

	2014	2013
Long-term liabilities	**$ 485,575**	$ 343,536
Current (assets)	**(515,462)**	(289,262)
	$ (29,887)	$ 54,274

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

	2014	2013
Current:		
Federal	**$ 795,409**	$ 278,730
State	**49,154**	17,900
Deferred	**(84,161)**	75,510
	$ 760,402	$ 372,140

Note 7. Income Taxes (Continued)

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

	2014	2013
Computed income tax expense at federal statutory rate of 34%	**$ 826,704**	$ 387,035
Meals and entertainment expense	**5,925**	5,867
Domestic production activities deduction	**(80,580)**	(28,900)
Other, net	**8,353**	8,138
	$ 760,402	$ 372,140

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 2010.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended July 31, 2014 and 2013, the Company did not recognize any interest and/or penalties. As of July 31, 2014 and 2013, 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 $85,000 and $70,000 for the years ended July 31, 2014 and 2013, 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 $11,000 and $10,000 for the years ended July 31, 2014 and 2013, 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 and the Company's corporate office. 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, 2014 and 2013 were $155,284 and $140,646, 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
2015	$ 163,000
2016	164,000
2017	164,000
2018	163,000
2019	147,000

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, 2014, the Company had one customer that accounted for 12.6% of consolidated net sales. There were no amounts due from this major customer as of July 31, 2014. For the year ended July 31, 2013, the Company had a different 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 at July 31, 2013.

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 former member of the board of directors received interest and rental income of $70,267 and $72,369 for the years ended July 31, 2014 and 2013, respectively, while a member of the board of directors. The note payable due to the former member was paid off during 2014. This former member is also associated with a consulting firm which the Company incurred expense of $29,230 and $142,400 in 2014 and 2013, respectively, while a member of the board of directors.

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 $7,740 in 2014. No such expense was incurred in 2013.

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 which the Company incurred expense of $7,987 and $23,400 in 2014 and 2013, respectively.

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. Included in cost of goods sold for the year ended July 31, 2014, was a combined expense of approximately $349,000 for the obsolescence and write-off of inventory.

	Year Ended July 31,	
	2014	2013
Net sales	**$ 152,575**	$ 479,616
Cost of goods sold	**(523,626)**	(427,878)
Income (loss) before income taxes	**(371,051)**	51,738
Income tax (expense) benefit	**116,040**	(16,914)
Income (loss) from discontinued operations, net of tax	**$ (255,011)**	$ 34,824

EXECUTIVE OFFICERS

Robert E. Scott	**Donald L. Dunn**	**R. Brad Harse**
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

R. Brad Harse
Retired
Lincoln, Nebraska

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

P. Kevin Pope
President
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