UNIVERSAL MFG. CO.

ANNUAL REPORT TO SHAREHOLDERS

2015

President's Message to Our Shareholders

This is the fifth time I have had the privilege of writing this letter to you our shareholders. As I have done on one occasion previously, I report that from an earnings perspective, we had a very difficult and disappointing year. Similar to the last time I reported disappointing and unacceptable results, I remain optimistic about our progress, our opportunities and our future.

There is no good way to characterize our results from last year other than unacceptable. The Management's Discussion and Analysis that follows in this report will put some context to the numbers and suggest why we are in a position to grow and perform at a much higher level; however, please understand that neither I nor the board are satisfied with the results of this year.

The year was materially impacted by our acquisition of the Ultra operations in Shelby, North Carolina. We began discussion with Ultra's owner early in the year. Closing occurred in February and the last five months of the year were spent installing our systems, people and processes. Additionally, we relocated Man Lift operation to the Shelby location dealing with the loss of fine employees, relocation of others and training new people how to build our Man Lift products. Disruptive is the most descriptive word of the short term impact on our overall operations. You also quickly realize just how lean your organization is when you undertake a significant transaction such as we did. Our entire team worked extremely hard; special mention must go to Dawn Sutter, CFO, for her yeoman efforts related to the acquisition while doing her "real" job for a substantially larger organization at the same time.

UMC ReTech was a bright spot in financial performance. The operation was under new leadership the past year as Darryl Anderson assumed the role of President in September of 2014. The growth in the team, the positive culture and energy of the operation is a direct result of Darryl's leadership and his team's willingness to assume responsibility and add depth to the operation. Although sales did not grow, margins improved significantly and operations are poised to produce at a significantly higher level.

As we begin our new fiscal year, we have a lot to be excited about in all operations. Our new Ultra Armoring subsidiary was the successful bidder on a $31.1 Million contract that was awarded in July. You will see the impact of the contract on our balance sheet although no revenue was recognized from the contract in the year just ended. Material improvements in our ability to communicate with customers at UMC ReTech will be rolled out in the first quarter of this year that bodes well for that operation. Our team is growing, we finished the year with over 200 employees, and are anxious for the new year to demonstrate that the leap we took with the Ultra acquisition was a quality decision that will pay benefits for UMC and you its shareholders for years to come. 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 disappointing and unacceptable. Our sales declined 13.7% year over year, we report a loss at operations of $1.7 Million and net loss after taxes of $1.45 Million. Sales of UMC ReTech declined 3% year over year, however, operating income for the operation increased by 161% year over year. Our Man Lift operation saw sales decline by 65% resulting in significant operating loss. Operating results were materially impacted by our acquisition of the Ultra operations and the relocation of our Man Lift operation to Shelby, NC (collectively, the "Ultra Transaction"), each more thoroughly discussed below. One-time out of pocket costs associated with the actual acquisition were $126,000, and costs associated with the relocation of Man Lift were $ 406,000. Additionally, we took a one-time charge of $853,000 in July related to an earn-out obligation that was part of the Ultra Transaction, also further explained below. In the aggregate, these three categories of one-time pre-tax costs or charges equaled $1.39 Million or 95.8% of our net loss.

As noted in prior years, we continue to look for new opportunities in the manufacturing world. This year we found such an opportunity. At the end of February we closed on the purchase of substantially all of the assets of Ultra Machine & Fabrication, Inc., through a newly formed wholly owned subsidiary, Metal Works Mfg. Co. Additionally, we purchased the sole membership interest in Ultra Armoring, LLC, making it wholly owned by UMC, also.

As part of the Ultra Transaction and our overall business plan, we relocated Man Lift Mfg. Co., from its prior location in Cudahy, WI to the new facility in Shelby, NC. We believe this will be a materially positive long term move for Man Lift; however, as noted above we incurred substantial cost in completing the move. Included in these costs are relocation expenses of equipment, inventory and personnel ($157,000) and charges related to disposal or right down of duplicative or unneeded equipment we are in the process of liquidating ($249,000).

The acquisition of the Ultra operation materially impacted UMC. From the downside, it was very time consuming, disruptive to ongoing operations at Man Lift and, as noted above, generated a significant amount of one-time costs. On the upside, we have a significantly larger facility (220,000 square feet), newer and a more complete portfolio of equipment, entry into two new markets – custom fabrication and military contracting with a real focus on armor – and ability to realize real efficiencies from the consolidation of three distinct operations into a single facility. The upfront cost was real and for a small operation like UMC, material. That said, we acquired the operation and the equipment at a fair price and with a financial package that makes sense and locks in good rates for the foreseeable future - $4 Million in bank term debt amortized over ten years at 4.25% per annum for five years, plus a $1 Million carryback by the Seller at prime rate, interest only for four years. The purchase price includes an earn out based on the sales of Metal Works and Ultra Armoring over the next four years with a $4.5 Million cap. As part of the move of Man Lift to North Carolina, we were awarded an incentive package from the state of North Carolina that will provide us financial assistance growing in year three and maintaining thereafter at $117,000 annually for the next twelve years (approximately $1.3 Million in the aggregate) if we perform as we are confident we will. As part of the Ultra Transaction, we assumed two significant contracts with the US Government that will provide us a solid base of production for the first fifteen months after closing and more importantly, provide us time to develop our new markets and relocate Man Lift to the new and more efficient and equipment capable location.

Our forecast for revenue at the newly acquired operations are approximately a quarter behind our schedule, but on track for performance as estimated. The greatest limitation of the operation acquired was a very thin and limited sales team. Additionally, our Man Lift operation was very thin in engineering resources and we lost three engineers due to the move. We have begun the process of growing our sales and engineering teams, both time consuming but essential for long term success.

In addition to the significant upside that presents with the new Shelby location, we had other excellent things occur in the year just completed. UMC ReTech, rebranded to take advantage of the widely known and respected UMC name, had a solid year. As noted, while sales decreased marginally, gross margins grew significantly, from 22.3% to 27.2% and changes and team building puts us in a position to now focus on growing sales. Darryl Anderson and his team have put the operation in position to grow the top line while improving our bottom line, both key in how we evaluate our businesses.

The greatest disappointment for the year was Man Lift. As we acknowledged in each of the last two years, Man Lift is materially impacted by large jobs; the year just ended simply had no large jobs. Additionally, the relocation to Shelby, loss of our principal engineer and need to retrain our work force added to the challenging year. This year looks even worse when compared to the prior year that was a record in both sales and profit. We continue to believe in the market for our products and will work diligently to get back to our prior levels, developing repeatable work for niche markets that enhance productivity and safety for our customers and their employees.

An example of the opportunities that come with our acquisition and operations in Shelby, in early July, 2015, we were awarded a $31.1 Million contract by the US Government to source and deliver a large volume of vehicles for deployment by Special Operations Command. Our year-end balance sheet reflects the substantial cost associated with the transaction, including $16.1 Million of new debt to fund the inventory and resulting accounts receivable. As of the writing of this report, $13.4 Million of the debt that had grown to $17.7 Million, has been repaid and we remain on budget for a very successful culmination of the contract that will be completed in mid-October 2015.

One impact of this contract is that sales will be enough to trigger all of our earn-out obligation related to the Ultra Transaction as described above. The obligation will be owing at the first anniversary of the closing of the transaction, February 29, 2016. We will owe the seller UMC stock having a book value of $750,000 as of February 29, 2016 plus $3.75 Million of cash. Due to the nuances of purchase price accounting, which is based on what is known as of the date of closing, only $3.65 Million of the earn out obligation was booked as a liability as of closing. As of July 31, 2015 we recognized a one-time charge of $853,000, the difference between the booked earn out obligation and the actual amount that will be paid in March of next year. For tax purposes, the purchase price will be reclassified and the amount of the charge will be classified as goodwill resulting in a temporary difference between book and tax in the amount of the charge that will be amortized over 15 years for tax purposes.

Finally, we are sorry to report that Paul Luber has elected to not stand for reelection to our board. We valued Paul's contribution to the Board, thank him for his service and hope to work with him collaboratively in the future. Jim Cluck has been nominated by the Nomination Committee to fill the seat being vacated by Paul. Jim is a seasoned professional that retired in 2013 after 41 years of combined military and federal service including 29 years' experience in Department of Defense acquisition. Jim will be of great value to our Board as we move more significantly in contracting with the US government and military.

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

FORWARD LOOKING STATEMENTS - SAFE HARBOR

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

Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Universal Mfg. Co. and Subsidiaries, which comprise the consolidated balance sheets as of July 31, 2015 and 2014, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Universal Mfg. Co. and Subsidiaries as of July 31, 2015 and 2014, 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, 2015

Universal Mfg. Co. and Subsidiaries

Consolidated Balance Sheets
July 31, 2015 and 2014

Assets	**2015**	2014
Current Assets:		
Cash and cash equivalents	**$ 33,783**	$ 2,307,728
Restricted cash	**156,268**	-
Receivables:		
Trade receivables, less allowance of $105,309	**3,425,964**	3,835,061
Other receivables, net	**275,757**	275,757
Cost and estimated earnings in excess of billings on uncompleted contracts, net	**2,061,445**	600,838
Inventories, net	**24,100,640**	3,411,171
Prepaid expenses	**470,464**	141,444
Income tax receivable	**664,297**	102,862
Deferred income taxes	**573,479**	515,462
Total current assets	**31,762,097**	11,190,323
Property, plant and equipment, net	**8,847,415**	1,372,690
Other Noncurrent Assets:		
Intangibles, net of amortization	**107,591**	43,727
Goodwill	**4,904,350**	4,898,600
	5,011,941	4,942,327
Total assets	**$ 45,621,453**	$ 17,505,340

Liabilities and Stockholders' Equity

Current Liabilities:		
Outstanding checks in excess of bank balance	**$ 358,284**	$ -
Lines of credit	**18,262,040**	-
Current portion of long-term debt	**509,909**	167,772
Accounts payable	**2,494,258**	1,028,368
Deferred revenue	**685,295**	-
Contingent consideration liability	**4,500,000**	-
Accrued expenses and other liabilities	**2,177,284**	2,505,905
Total current liabilities	**28,987,070**	3,702,045
Noncurrent Liabilities:		
Long-term debt, less current portion	**6,200,617**	1,844,976
Deferred income taxes	**404,498**	485,575
Total noncurrent liabilities	**6,605,115**	2,330,551
Stockholders' Equity:		
Common stock - $1 par value, 2,000,000 shares authorized, 816,000 shares issued and outstanding, respectively	**816,000**	816,000
Additional paid-in-capital	**137,517**	128,392
Retained earnings	**9,075,751**	10,528,352
Total stockholders' equity	**10,029,268**	11,472,744
Total liabilities and stockholders' equity	**$ 45,621,453**	$ 17,505,340

See Notes to Consolidated Financial Statements.

Universal Mfg. Co. and Subsidiaries

Consolidated Statements of Operations
Years Ended July 31, 2015 and 2014

	2015	2014
Net sales	**$ 23,914,152**	$ 27,717,803
Cost of goods sold	**(19,722,701)**	(20,035,627)
Gross profit	**4,191,451**	7,682,176
Operating expenses:		
Selling, general and administrative expenses	**4,318,141**	4,144,846
Change in fair value of contingent consideration liability	**853,000**	-
Other corporate operations	**703,579**	729,673
Total operating expenses	**5,874,720**	4,874,519
Operating income (loss)	**(1,683,269)**	2,807,657
Other income (expense):		
Interest expense	**(265,696)**	(69,001)
Gain (loss) on sale of assets	**(99,181)**	60,647
Other, net	**3,423**	3,229
Total other expense	**(361,454)**	(5,125)
Income (loss) before income taxes	**(2,044,723)**	2,802,532
Income tax benefit (expense)	**602,743**	(876,442)
Income (loss) from continuing operations	**(1,441,980)**	1,926,090
Discontinued operations:		
Loss from discontinued operations, net of tax	**(10,621)**	(255,011)
Net income (loss)	**$ (1,452,601)**	$ 1,671,079
Income (loss) per common share—basic		
Income (loss) from continuing operations	**$ (1.77)**	$ 2.28
Loss from discontinued operations, net of tax	**(0.01)**	(0.30)
Net income (loss)	**$ (1.78)**	$ 1.98
Income (loss) per common share—diluted		
Income (loss) from continuing operations	**$ (1.77)**	$ 2.26
Loss from discontinued operations, net of tax	**(0.01)**	(0.30)
Net income (loss)	**$ (1.78)**	$ 1.96

See Notes to Consolidated Financial Statements.

Universal Mfg. Co. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Years Ended July 31, 2015 and 2014

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
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
Net loss	-	-	(1,452,601)	(1,452,601)
Non-cash stock-based compensation	-	9,125	-	9,125
Balance, July 31, 2015	**$ 816,000**	**$ 137,517**	**$ 9,075,751**	**$ 10,029,268**

See Notes to Consolidated Financial Statements.

Universal Mfg. Co. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended July 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Net income	**$ (1,452,601)**	$ 1,671,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**987,063**	346,023
Deferred income taxes	**(139,094)**	(84,161)
(Gain) loss on sale of assets	**99,181**	(60,647)
Change in fair value of contingent consideration liability	**853,000**	-
Non-cash stock-based compensation	**9,125**	52,656
Changes in assets and liabilities:		
Receivables	**409,097**	(1,788,336)
Income tax receivable	**(561,435)**	14,043
Costs and estimated earnings in excess of billings on uncompleted contracts, net	**(1,460,607)**	(211,544)
Inventories	**(20,310,847)**	287,535
Prepaid expenses	**(292,514)**	(39,057)
Accounts payable	**1,465,890**	450,355
Deferred revenue	**685,295**	-
Accrued expenses and other liabilities	**(664,232)**	1,336,655
Net cash provided by (used in) operating activities	**(20,372,679)**	1,974,601
Cash Flows From Investing Activities		
Cash paid for business combination	**(3,981,473)**	-
Purchases of property, plant and equipment	**(82,627)**	(157,881)
Proceeds from sales of property and equipment	**1,000**	383,575
Net cash provided by (used in) investing activities	**(4,063,100)**	225,694
Cash Flows From Financing Activities		
Outstanding checks in excess of bank balance	**358,284**	-
Change in restricted cash	**(156,268)**	-
Net activity on lines of credit	**18,262,040**	-
Proceeds from issuance of long-term debt	**4,000,000**	2,012,748
Repayment of long-term debt	**(302,222)**	(2,820,979)
Repurchase of common stock	**-**	(400,000)
Net cash provided by (used in) financing activities	**22,161,834**	(1,208,231)
Net increase (decrease) in cash and cash equivalents	**(2,273,945)**	992,064
Cash and Cash Equivalents:		
Beginning	**2,307,728**	1,315,664
Ending	**$ 33,783**	$ 2,307,728
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	**$ 194,869**	$ 75,385
Cash paid for income taxes, net	**$ 71,206**	$ 701,603
Supplemental Disclosure of Noncash Information:		
Debt issued in conjunction with business combination	**$ 1,000,000**	$ -
Contingent consideration liability incurred in conjunction with business combination	**$ 3,647,000**	$ -

See Notes to Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

Nature of operations: Universal Mfg. Co. is engaged in the business of remanufacturing and/or distribution, on a wholesale basis, of electric fuel pumps, transfer cases, calipers, transmission 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.

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

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

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

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

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

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

Assets	Depreciation Method	Lives
Buildings	Straight-line and declining balance	10-39 years
Machinery and equipment	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.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Goodwill: Goodwill represents the excess of purchase price and related costs over the value assigned to the net assets acquired. Goodwill is not amortized, but the Company performs impairment tests annually and whenever events or circumstances occur indicating that goodwill might be impaired. Based upon the Company's annual assessment for the years ended July 31, 2015 and 2014, no impairment of goodwill has occurred.

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

Deferred taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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

Revenue and cost recognition: Universal Mfg. Co. and its subsidiaries Ultra Armoring, LLC and Metal Works Mfg. Co. recognize 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.

Note 1. Summary of Significant Accounting Policies (Continued)

Income per common share: Income per common share for 2015 and 2014 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, 2015 and 2014 were 816,000 and 845,776, respectively. The diluted weighted average number of shares of common stock outstanding for the years ended July 31, 2015 and 2014 were 816,000 and 853,787, respectively. The additional dilutive shares relate to outstanding stock options.

Use of estimates: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments: The Company uses a framework for measuring fair value, and expands disclosures about fair value measurement when it is obligated to do so based upon the assets or liabilities it holds. The carrying value of cash and cash equivalents, receivables, accounts payable, accrued expenses, lines of credit and debt approximate their fair value in the accompanying consolidated balance sheets. The contingent consideration liability is revalued to fair value at each reporting date. See Note 15 for additional fair value disclosures.

Subsequent events: The Company has evaluated subsequent events through September 29, 2015, the date on which the consolidated financial statements were available to be issued.

Recently issued accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The updated standard will replace most existing revenue recognition guidance for accounting principles generally accepted in the United States (U.S. GAAP) when it becomes effective, and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date to annual reporting periods beginning after December 15, 2018. Accordingly, the Company will be required to adopt the new guidance beginning in fiscal 2019. 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. Business Combination

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

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

Note 2. Business Combination (Continued)

The total purchase price was allocated approximately as follows:

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

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

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

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

Note 3. Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts

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

	2015	2014
Costs incurred on uncompleted contracts	$ 2,251,493	$ 3,074,521
Estimated earnings	167,542	777,556
	2,419,035	3,852,077
Less billings to date	357,590	3,251,239
	$ 2,061,445	$ 600,838

	2015	2014
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 2,162,259	$ 893,729
Billings in excess of costs and estimated earnings on uncompleted contracts	(100,814)	(292,891)
	$ 2,061,445	$ 600,838

Note 4. Inventories

Inventories consisted of the following as of July 31:

	2015	2014
Inventories (on an average cost basis):		
Product core	$ 1,647,968	$ 1,600,684
Raw materials	1,292,984	1,313,854
Finished small parts	1,489,247	1,569,896
	4,430,199	4,484,434
LIFO reserves	(940,241)	(922,611)
Inventories at LIFO	3,489,958	3,561,823
Work-in-process at FIFO	20,379,594	-
Other inventories, principally FIFO	687,239	500,853
Obsolescence reserves	(456,151)	(651,505)
	$ 24,100,640	$ 3,411,171

Note 5. Property, Plant and Equipment

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

	2015	2014
Land	$ 68,279	$ 68,279
Buildings	1,567,359	1,567,359
Machinery and equipment	9,314,881	2,009,085
Office equipment and software	946,398	793,622
Motor vehicles	193,353	52,253
	12,090,270	4,490,598
Less accumulated depreciation	3,312,675	3,117,908
	8,777,595	1,372,690
Construction in progress	14,820	-
Property held for future use	55,000	-
	$ 8,847,415	$ 1,372,690

Depreciation expense was $978,927 and $342,165 for the years ending July 31, 2015 and 2014, respectively.

Note 6. Lines of Credit

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

Note 7. Total Long-Term Debt

Long-term debt as of July 31 consists of:

	2015	2014
Note payable to Security First Bank, interest fixed at 4%, payable in monthly installments, maturing July 2024	$ 1,846,096	$ 2,012,748
Note payable to Security First Bank, interest fixed at 4.25%, payable in monthly installments, maturing February 2020	3,864,430	-
Note payable to Ultra Machine & Fabrication, Inc., variable interest (3.25% at July 31, 2015), interest payable in monthly installments, principal due upon note maturing February 2019	1,000,000	-
Total long-term debt	6,710,526	2,012,748
Less current portion	509,909	167,772
	$ 6,200,617	$ 1,844,976

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

2016	$ 510,000
2017	532,000
2018	554,000
2019	1,578,000
2020	2,639,000
Thereafter	898,000
	$ 6,711,000

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

The Security First Bank credit facility is subject to a security and loan agreement, which contains certain restrictions on dividends to stockholders, capital improvement limitations, and a provision such that the Company shall not incur or contract any new debt. Such agreement also discloses the Company shall maintain a maximum total bank debt to equity ratio of 1.0 and a free cash flow coverage ratio to lender term debt of 1.75, and are subject to various non-financial covenants. The Company was in violation of the maximum total bank debt to equity ratio and free cash flow coverage to lender term debt ratio covenants as of July 31, 2015 and obtained a waiver from the bank. Additionally, the Company obtained a waiver for issuance of new debt related to the $10 million and $7.7 million lines of credit.

Note 8. Income Taxes

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

	2015	2014
Deferred tax liabilities:		
Property, plant and equipment	$ 238,981	$ 113,852
Intangible assets	165,517	371,723
Prepaid expenses	-	46,208
	404,498	531,783
Deferred tax assets:		
Allowance for doubtful accounts	(37,911)	(37,911)
Inventory reserve	(164,214)	(234,542)
Warranty reserve	(148,254)	(136,592)
Inventory capitalization	(34,023)	(33,405)
Accrued vacation	(52,079)	(73,984)
Self funded insurance	(87,523)	(45,236)
Accrued rent expense	(16,428)	-
Accrued audit fees	(30,998)	-
Charitable contributions	(2,049)	-
	(573,479)	(561,670)
	$ (168,981)	$ (29,887)

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

	2015	2014
Long-term liabilities	$ 404,498	$ 485,575
Current (assets)	(573,479)	(515,462)
	$ (168,981)	$ (29,887)

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

	2015	2014
Current expense (benefit):		
Federal	$ (483,089)	$ 795,409
State	15,000	49,154
Deferred benefit	(139,094)	(84,161)
	$ (607,183)	$ 760,402

Note 8. 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:

	2015	2014
Computed income tax expense (benefit) at federal statutory rate of 34%	$ (700,327)	$ 826,704
Meals and entertainment expense	9,571	5,925
Domestic production activities deduction	50,909	(80,580)
Other, net	32,664	8,353
	$ (607,183)	$ 760,402

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

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended July 31, 2015 and 2014, the Company did not recognize any interest and/or penalties. As of July 31, 2015 and 2014, the Company did not have any balances accrued for interest and/or penalties.

Note 9. Employee Benefits

401(k) Plan: The Company sponsors a 401(k) plan which is available to all employees who are at least 21 years of age and have completed one year of service. Employees can contribute up to 15 percent of their compensation to the plan. The Company will provide a matching contribution equal to employee contributions up to a maximum of three percent. Total expenses for the Company under the plan were approximately $111,000 and $85,000 for the years ended July 31, 2015 and 2014, 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 and $11,000 for the years ended July 31, 2015 and 2014, respectively.

Note 10. 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 11. Commitments and Contingencies

The Company is obligated under certain noncancelable operating leases. Assets held under these leases include the land, building and telephone system for the Company's operating locations. The Company is also responsible for all taxes, insurance, utilities and repairs. All leases provide for renewal periods. Lease expense for the years ended July 31, 2015 and 2014 were $380,958 and $155,284, respectively.

Note 11. Commitments and Contingencies (Continued)

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
2016	$ 705,000
2017	544,000
2018	147,000
2019	138,000

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

Note 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 portion of the Company's business is with major customers. For the year ended July 31, 2015, the Company had one customer that accounted for 14 percent of consolidated net sales. Amounts due from this major customer included within accounts receivable on the consolidated balance sheets were $859,119 at July 31, 2015. For the year ended July 31, 2014, the Company had a different customer that accounted for 13 percent of consolidated net sales. There were no amounts due from this major customer as of July 31, 2014.

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.

In July, the Company was awarded a contract with a department of the United States government for the delivery of certain vehicles to locations in the Middle East. The total amount of the contract is approximately $31.1 million with delivery scheduled for August through October 2015. Work-in-process inventory associated with this contract is approximately $17.8 million as of July 31, 2015. The Company's use of the $10 million and $7.7 million lines of credit as disclosed in Note 6 are limited to purchasing vehicles relating to the contract. Subsequent to July 31, 2015, the Company received payments from the government totaling approximately $18.1 million with the remaining contract due upon delivery of remaining shipments. Of the payments received, approximately $15.8 million was used to pay down the balance on the Company's lines of credit.

Note 13. Related Party Transactions

A former member of the board of directors received interest and rental income of $70,267 for the year ended July 31, 2014, 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 in 2014, while a member of the board of directors.

Note 13. Related Party Transactions (Continued)

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 $12,384 and $7,740 in 2015 and 2014, respectively.

An employee and officer of the Company is a director in the institution in which the Company has depository funds and debt financing. This individual is also associated with a legal firm which the Company incurred expense of $50,017 and $7,987 in 2015 and 2014, respectively.

To facilitate the financing by Security First Bank for the U.S. government contracts described in Note 12, Security First Bank participated out a portion of the loans. Two companies owned in part by a member of the board of directors of the Company participated $2.75 million, and an employee and officer of the Company participated $850,000. The related parties earned an annual rate of 10% simple interest in the aggregate for their participations, that being 4.25% through and from Security First Bank, and an additional 5.25% per annum directly from the Company. In addition, the Company paid a loan fee of 3% to the related parties.

Note 14. 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, 2015	Year Ended July 31, 2014
Net sales	$ 64,141	$ 152,575
Cost of goods sold	(79,202)	(523,626)
Loss before income taxes	(15,061)	(371,051)
Income tax benefit	4,440	116,040
Loss from discontinued operations, net of tax	$ (10,621)	$ (255,011)

Note 15. Fair Value Measurements

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

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

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

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

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

Contingent consideration liability: The contingent consideration liability is reported at fair value utilizing Level 3 inputs based on the expected timing of consideration payments. The liability is valued based on management's projections of future revenues. As of July 31, 2015, projected revenues are such that the contingent consideration cap will be met in the first measurement period.

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

Balance, July 31, 2014	$ -
Issuance of contingent consideration liability	3,647,000
Change in fair value of contingent consideration liability	853,000
Balance, July 31, 2015	$ 4,500,000

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Donald L. Dunn
President & CEO

Dawn M. Sutter
Secretary/Treasurer

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Lincoln, Nebraska

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Consultant to Kinder Porter
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P. Kevin Pope
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