

MESSAGE FROM CEO

To Our Shareholders:

In 2016, UPG made progress towards achieving the key elements of our long-term strategic plan to be a leader in powering innovations:

- Growing US manufacturing capabilities and expertise in smart lithium-ion technology for expansion into new markets and leading-edge applications.
- Enhancing complementary value-added solutions such as engineering expertise, EDI, and third party logistics solutions.
- Diversifying product mix to minimize our exposure to the broader economy and the competitive nature of commodity-based sealed lead-acid business.
- Creating long-term partnerships with our customers by bringing value beyond the product.

Our positive progress was tempered by litigation brought by an individual minority stockholder. As the stockholder's claims were without merit, we vigorously defended the company, its officers, and directors. In December, we came to a favorable settlement with the minority stockholder, and the suit was dismissed. While we navigated through this matter as effectively as we could, the case resulted in significant time, money and resource being expended in legal related matters.

All in all, UPG worked through the legal challenges as efficiently as we could while remaining focused on creating value by providing the best possible products and services to our customers. Building upon our fundamentals including our balance sheet, financial stability and proven business model, remain key elements in achieving our long-term objectives.

On behalf of the entire management team and our Board of Directors, I would like to express our gratitude and appreciation to our customers and suppliers for their partnership in 2016 and beyond. I would also like to take this opportunity to recognize our employees for their devotion, enthusiasm, and continuous efforts toward exceptional performance. Our future remains vibrant with exciting opportunities, and our strategic plans reflect optimism, and dedication to our operational and financial success.

Thank you for your continued support. We are fully committed to powering innovations into the future, and in turn, bringing value to our customers, employees, business partners and shareholders over the long-term. Once again, thank you for your support as we look towards celebrating our 50th anniversary in 2018.

Warm Regards,

Ian Edmonds
President & CEO

Universal Power Group, Inc.
Consolidated Balance Sheets
December 31, 2016 and 2015
(in thousands, except share information)

Assets

	2016	2015
Current Assets		
Cash and cash equivalents	\$ 152	\$ 205
Accounts receivable		
Trade, net of allowances of \$76 and \$145, respectively	13,121	16,092
Other	44	142
Inventories – finished goods, net of allowances for obsolescence of \$847 and \$687, respectively	21,123	24,235
Current deferred tax assets	702	706
Income tax receivable	361	-
Prepaid expenses and other current assets	1,204	1,387
 Total current assets	 36,707	 42,767
 Property and Equipment, at Cost		
Logistics and distribution systems	1,945	1,932
Machinery and equipment	1,641	1,216
Furniture and fixtures	941	905
Leasehold improvements	1,159	1,121
Vehicles	24	24
	5,710	5,198
Less accumulated depreciation and amortization	(3,758)	(3,292)
	1,952	1,906
 Other Assets		
Goodwill	9,440	9,440
Intangible assets, net	446	551
Other	155	160
Noncurrent deferred tax assets	84	241
	10,125	10,392
 Total assets	 \$ 48,784	 \$ 55,065

Universal Power Group, Inc.
Consolidated Balance Sheets (Continued)
December 31, 2016 and 2015
(in thousands, except share information)

Liabilities and Shareholders' Equity

	2016	2015
Current Liabilities		
Line of credit	\$ 12,973	\$ 15,000
Accounts payable	9,705	10,385
Accrued liabilities	783	884
Current portion of note obligation	571	571
Current portion of deferred rent	28	19
Total current liabilities	24,060	26,859
Long-term Liabilities		
Deferred rent, less current portion	1,072	1,123
Note obligation, less current portion	2,572	3,143
Total liabilities	27,704	31,125
Shareholders' Equity		
Common stock – \$0.01 par value, 50,000,000 shares authorized, 4,957,285 and 5,020,000 shares issued and outstanding, 2016 and 2015, respectively	50	50
Additional paid-in capital	13,798	16,468
Retained earnings	7,232	7,422
Total shareholders' equity	21,080	23,940
Total liabilities and shareholders' equity	\$ 48,784	\$ 55,065

Universal Power Group, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2016 and 2015
(in thousands except per share amounts)

	<u>2016</u>	<u>2015</u>
Net Sales	\$ 91,581	\$ 90,947
Cost of Sales	<u>74,271</u>	<u>73,961</u>
Gross Profit	17,310	16,986
Operating Expenses	<u>16,984</u>	<u>15,621</u>
Operating Income	326	1,365
Other Income (Expense)		
Interest expense	(501)	(413)
Other, net	<u>-</u>	<u>13</u>
Total other expense, net	<u>(501)</u>	<u>(400)</u>
Income (Loss) Before Provision for Income Taxes	(175)	965
Provision for Income Taxes	<u>(15)</u>	<u>(410)</u>
Net Income (Loss)	<u>\$ (190)</u>	<u>\$ 555</u>
Net Income (Loss) Per Share		
Basic	\$ (0.03)	\$ 0.11
Diluted	\$ (0.03)	\$ 0.11
Weighted Average Shares Outstanding		
Basic	5,465	5,020
Diluted	5,465	5,111

Universal Power Group, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015
(in thousands)

	<u>2016</u>	<u>2015</u>
Operating Activities		
Net income (loss)	\$ (190)	\$ 555
Items not requiring (providing) cash		
Depreciation and amortization	579	499
Provision for doubtful accounts	109	128
Provision for obsolete inventory	319	203
Deferred income taxes	161	(48)
Stock-based compensation	86	-
Changes in operating assets and liabilities, net of acquisition		
Accounts receivable – trade	2,862	(1,911)
Accounts receivable – other	98	140
Inventories	2,868	2,567
Income taxes receivable/payable	(361)	-
Prepaid expenses and other assets	114	(333)
Accounts payable	(680)	241
Accrued liabilities	(102)	(253)
Deposits	-	(259)
Deferred rent	(42)	(81)
	<u>5,821</u>	<u>1,448</u>
Net cash provided by operating activities		
Investing Activities		
Purchase of intangible assets	(40)	-
Purchase of property and equipment	(480)	(292)
Payment for iTech acquisition, net of cash acquired	-	(12,092)
	<u>(520)</u>	<u>(12,384)</u>
Net cash used in investing activities		
Financing Activities		
Net activity on line of credit	(2,026)	10,432
Dividends paid	-	(500)
Proceeds from stock options exercised	100	-
Purchase of common stock	(2,856)	-
Proceeds from note obligations	-	4,000
Payments on capital lease and note obligations	(572)	(3,190)
	<u>(5,354)</u>	<u>10,742</u>
Net cash provided by (used in) financing activities		
Net Decrease in Cash and Cash Equivalents	(53)	(194)
Cash and Cash Equivalents, Beginning of Year	205	399
Cash and Cash Equivalents, End of Year	\$ 152	\$ 205
Supplemental Disclosures		
Income taxes paid	\$ 238	\$ 714
Interest paid	\$ 536	\$ 379

The Company purchased all of the membership interests of iTech for \$12,128. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$ 14,438
Cash paid for the membership interests	<u>(12,128)</u>
Liability assumed	<u>\$ 2,310</u>