

UNIVERSAL POWER GROUP INC.

Interim Financial Statements

**For the Three and Six Month
Periods Ending June 30, 2016 and 2015**

**UNIVERSAL POWER GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS**

ASSETS

(Amounts in thousands except share amounts)

	June 30, 2016 (unaudited)	December 31, 2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 571	\$ 205
Accounts receivable:		
Trade, net of allowances of \$195 and \$145, respectively	15,354	16,092
Other	156	142
Inventories – finished goods, net of allowances for obsolescence of \$810 and \$687, respectively	22,247	24,235
Current deferred tax assets	743	706
Income tax receivable	95	—
Prepaid expenses and other current assets	1,070	1,387
Total current assets	40,236	42,767
 PROPERTY AND EQUIPMENT		
Logistics and distribution systems	1,932	1,932
Machinery and equipment	1,370	1,216
Furniture and fixtures	905	905
Leasehold improvements	1,153	1,121
Vehicles	24	24
Total property and equipment	5,384	5,198
Less accumulated depreciation and amortization	(3,505)	(3,292)
Net property and equipment	1,879	1,906
 GOODWILL	 9,440	 9,440
INTANGIBLES, net	485	551
NON-CURRENT DEFERRED TAX ASSETS	93	241
OTHER ASSETS	159	160
Total other assets	10,177	10,392
 TOTAL ASSETS	 \$ 52,292	 \$ 55,065

See accompanying notes to unaudited condensed consolidated financial statements

**UNIVERSAL POWER GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)**

LIABILITIES AND SHAREHOLDERS' EQUITY

(Amounts in thousands except share amounts)

	June 30, 2016 (unaudited)	December 31, 2015
CURRENT LIABILITIES		
Line of credit	\$ 14,019	\$ 15,000
Accounts payable	8,673	10,385
Accrued liabilities	894	884
Current portion of capital lease and note obligations	571	571
Current portion of deferred rent	24	19
Total current liabilities	24,181	26,859
LONG-TERM LIABILITIES		
Capital lease and note obligations, less current portion	2,857	3,143
Deferred rent, less current portion	1,073	1,123
Total long-term liabilities	3,930	4,266
TOTAL LIABILITIES	28,111	31,125
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock - \$0.01 par value, 50,000,000 shares authorized 6,020,000 and 5,020,0000 shares issued and outstanding, respectively	60	50
Additional paid-in-capital	16,479	16,468
Retained earnings	7,642	7,422
Total shareholders' equity	24,181	23,940
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 52,292	\$ 55,065

See accompanying notes to unaudited condensed consolidated financial statements

UNIVERSAL POWER GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Amounts in thousands except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	\$ 23,546	\$ 23,371	\$ 46,983	\$ 43,138
Cost of sales	19,170	19,124	38,020	35,199
Gross profit	4,376	4,247	8,963	7,939
Operating expenses	4,070	3,854	8,242	7,311
Operating income	306	393	721	628
Other income (expense)				
Interest expense	(126)	(110)	(263)	(166)
Other, net	2	7	3	12
Total other expense, net	(124)	(103)	(260)	(154)
Income before provision for income taxes	182	290	461	474
Provision for income taxes	(138)	(136)	(241)	(220)
Net income	\$ 44	\$ 154	\$ 220	\$ 254
Net income per share				
Basic	\$ 0.01	\$ 0.03	\$ 0.04	\$ 0.05
Diluted	\$ 0.01	\$ 0.03	\$ 0.04	\$ 0.05
Weighted average shares outstanding				
Basic	5,657	5,020	5,339	5,020
Diluted	5,657	5,195	5,339	5,210

See accompanying notes to unaudited condensed consolidated financial statements

UNIVERSAL POWER GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)

	Six Months Ended June 30,	
	2016	2015
OPERATING ACTIVITIES		
Net income	\$ 220	\$ 254
Items not requiring (providing) cash:		
Depreciation and amortization	283	197
Provision for doubtful accounts	46	85
Provision for obsolete inventory	144	183
Deferred income taxes	111	39
Stock-based compensation	21	—
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable – trade	692	877
Accounts receivable – other	(14)	(2)
Inventories	1,844	1,018
Income taxes receivable/payable	(95)	(393)
Prepaid expenses and other assets	318	(34)
Accounts payable	(1,712)	(1,766)
Accrued liabilities	10	288
Deferred rent	(45)	(42)
Net cash provided by operating activities	1,823	704
INVESTING ACTIVITIES		
Payment of purchase of iTech, net of cash acquired	—	(9,965)
Purchases of property and equipment	(190)	(141)
Net cash used in investing activities	(190)	(10,106)
FINANCING ACTIVITIES		
Dividends paid	—	(500)
Proceeds of note obligations	—	1,285
Net activity on line of credit	(981)	9,314
Payments on capital lease and note obligations	(286)	(190)
Net cash used in (provided by) financing activities	(1,267)	9,909
NET INCREASE IN CASH AND CASH EQUIVALENTS	366	507
Cash and cash equivalents at beginning of period	205	399
Cash and cash equivalents at end of period	\$ 571	\$ 906
SUPPLEMENTAL DISCLOSURES		
Income taxes paid	\$ 226	\$ 573
Interest paid	\$ 264	\$ 163

See accompanying notes to unaudited condensed consolidated financial statements

UNIVERSAL POWER GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A — BASIS OF PRESENTATION

The condensed consolidated interim unaudited financial statements of Universal Power Group, Inc. (“UPG” or the “Company”), a Texas corporation, included in this quarterly report have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included for the three and six-month periods ended June 30, 2016 and 2015. The results for the three and six-month periods ended June 30, 2016 are not necessarily indicative of the results that may be expected for the full year. Certain information and note disclosures normally included in the Company’s annual financial statements prepared in accordance with GAAP have been condensed or omitted. The unaudited condensed consolidated financial statements included in this filing should be read in conjunction with the Company’s audited financial statements and notes for the year ended December 31, 2015. The condensed consolidated balance sheet of the Company as of December 31, 2015 has been derived from the audited consolidated balance sheet as of that date.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE B — ORGANIZATION

UPG is a distributor and supplier of batteries and related power accessories to a diverse range of industries, and a provider of third party logistics value-added solutions. The Company’s primary logistics center is located in Coppell, Texas and regional logistic centers are located in Las Vegas, Nevada and Atlanta, Georgia. The Company’s customers are primarily located in the United States. A small portion of the Company’s sales is to customers located in the United Kingdom, Australia, Ireland, Japan, China, Canada and Latin America.

Until December 20, 2006, the Company was a wholly owned consolidated subsidiary of Zunicom, Inc. (“Zunicom”), a Texas corporation, whose stock is quoted on the OTC Bulletin Board under the symbol “ZNCM.OB.” On December 20, 2006, the U.S. Securities and Exchange Commission declared effective a registration statement filed by the Company registering the sale of 3,000,000 shares of its common stock, including 1,000,000 shares owned by Zunicom (the “IPO”). As a result of the IPO, Zunicom’s interest in the Company was reduced to 40%. Zunicom no longer owns a controlling interest in UPG; however, as the largest shareholder, Zunicom does have significant influence over UPG.

On April 20, 2011, the Company completed an acquisition of substantially all of the business assets of Progressive Technologies, Inc. (“PTI”), a North Carolina company established in 1985 that designs and builds custom battery packs. PTI is a manufacturer of lithium-ion battery packs, among other chemistries, expanding the Company’s position in power solutions for the future in medical and other market segments. PTI is ISO 9001:2008 certified. On September 1, 2011, Progressive Technologies, Inc. changed its legal name to ProTechnologies, Inc.

UNIVERSAL POWER GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

On January 9, 2013, the Company became the sole member of a newly formed entity, SAM Security, LLC (“SAM”). SAM provided a do-it-yourself (“DIY”) home security system to a large retailer.

On October 31, 2013, the Company decided to voluntarily withdraw its common stock from trading on the NYSE MKT exchange and completed this de-listing with the filing of Form 25. In addition, on November 12, 2013, the Company completed the certification and notice of termination of registration and suspension of duty to file reports with the SEC completed with the filing of Form 15. At that time the Company ceased filing periodic reports pursuant to the Security Exchange Act of 1934, as amended, (the “Exchange” Act). The Company’s common stock is currently quoted on the over-the-counter market under the symbol UPGI.

On April 30, 2015, the Company completed an acquisition of all the membership interests of Intelligent Technologies, LLC (“iTech”), a California company and a manufacturer of market-leading portable power solutions to performance-critical industries and Fortune 500 companies. iTech provides innovative design and manufacture of smart lithium-ion batteries, chargers, docking stations and power sub-systems for performance critical applications in the handheld electronics, medical, intrinsic safety, industrial and communications markets. iTech is ISO 9001:2008 certified, ISO 13845 certified, and FDA registered.

NOTE C — STOCK-BASED COMPENSATION

At June 30, 2016, common shares reserved for future issuance include 1,980,000 shares issuable under the 2006 Stock Option Plan, as amended, as well as 20,000 shares issuable upon exercise of options not granted under the 2006 Stock Option Plan. At June 30, 2016, there were 1,488,933 options outstanding under the 2006 Stock Option Plan, and 491,067 options are available for future grants.

There were no options granted during the six months ended June 30, 2016 or 2015.

At June 30, 2016, the aggregate intrinsic value of options outstanding and exercisable was \$0.

At June 30, 2016, all outstanding options under the 2006 Stock Option Plan were fully vested with no remaining unrecognized compensation expense.

On April 16, 2015, the Compensation Committee of the Board of Directors approved the grant of 500,000 restricted shares of common stock to our Chief Executive Officer. On September 23, 2015 the Board of Directors approved the grant of an aggregate of 500,000 restricted shares of common stock to two other senior executive officers. The shares were issued on May 4, 2016 in consideration of past and future services, have full dividend and voting rights, but remain subject to full forfeiture for 10 years from the anniversary date. The shares granted includes restrictions on which they can not be sold, transferred or pledged as well as being tied to their employment with the Company. The Company is amortizing the fair value as compensation expense over the 10-year vesting period. Fair value of \$1.3 million was calculated based on the share price of \$1.30 on the date of grant. Approximately \$21,000 of compensation expense related to these shares was recorded during the six-month period ended for June 30, 2016. At June 30, 2016 there is approximately \$1.3 million remaining as unrecognized compensation expense associated with this grant.

On March 21, 2007, the Company issued stock options to non-employees to purchase 20,000 shares of the Company’s common stock at an exercise price of \$7.00 per share vesting over three years and expiring December 19, 2016. These stock options remain outstanding as of June 30, 2016.

UNIVERSAL POWER GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE D — NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period.

Diluted net income per share is computed by dividing net income by the weighted average number of common shares and dilutive common stock equivalents outstanding for the period. The Company's common stock equivalents include all common stock issuable upon the exercise of outstanding stock options and warrants.

For the three-month and six-month periods ended June 30, 2016, the dilutive effect of 1,508,933 stock options is excluded from the calculation as they are antidilutive.

For the three-month and six-month periods ended June 30, 2015, the dilutive effect of 877,683 stock options is included in the calculation and 631,250 stock options are excluded from the calculation as they are antidilutive.

NOTE E — CREDIT AGREEMENT

On June 30, 2016 the Company amended its credit agreement with Comerica Bank under which it may borrow up to \$33.4 million, including a \$30.0 million revolving line of credit ("Credit Line") and \$3.4 million term loan ("Term Loan"). All borrowings are secured by a first lien on all of the Company's assets. In addition, the Company may request an increase in the maximum Credit Line to \$40.0 million. Its borrowing availability is dependent upon its level of accounts receivable and inventory. With respect to the interest rate for each borrowing, the Company has the option to choose a "LIBOR-base Rate" or "Daily Adjusted LIBOR-based Rate" plus an "Applicable LIBOR Margin." Under the Credit Line, interest is payable monthly and the outstanding principal is due at maturity, on December 31, 2020 (the "Maturity Date"). Under the Term Loan, principal is payable in equal quarterly installments of \$142,857, plus interest beginning on July 1, 2016, with the entire unpaid principal amount due on the Maturity Date. At June 30, 2016, approximately \$14.0 million was outstanding under the Credit Line and \$3.4 million was outstanding under the Term Loan. Both the Credit Line and Term Loan were accruing interest at the rate of 2.71% per annum at June 30, 2016.

The credit agreement contains customary negative covenants restricting the Company's ability to take certain actions without Comerica's consent, including incurring additional indebtedness, transferring or encumbering assets, and acquiring other businesses. If there is an "event of default", including failure to pay, bankruptcy, breach of covenants and breach of representations and warranties, all amounts outstanding under the Credit Agreement will become immediately due and payable. In addition, the Company must maintain certain financial covenants on a quarterly basis.

NOTE F — CONCENTRATIONS

At June 30, 2016, the Company had one customer with 10% or more of total trade receivables. For the three and six months ended June 30, 2016 there was no customer with 10% or more of net sales but for the similar periods in 2015, there was one customer accounting for 10% or more of net sales.

UNIVERSAL POWER GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE G — LEGAL PROCEEDINGS

The Company is subject to legal proceedings and claims that arise in the ordinary course of business. Management does not believe that the outcome of these matters will have a material adverse effect on the Company's financial position, operating results, or cash flows. However, there can be no assurance that such legal proceedings will not have a material impact.

NOTE H — INCOME TAXES

The Company files income tax returns in the U.S. federal jurisdiction and various states.

The Company recorded income expense of approximately \$138,000 and \$136,000 for the three-month periods ended June 30, 2016 and 2015, respectively. The income tax expense for the six-month periods ended June 30, 2016 and 2015 was \$241,000 and \$220,000, respectively. The Company's effective tax rate was 75.8% and 46.9% for the three months ended June 30, 2016 and 2015, respectively. The Company's effective tax rate was 52.3% and 46.4% for the six months ended June 30, 2016, and 2015, respectively. Income tax expense is different than the federal statutory rate of 34% primary as a result of state income taxes and items not deductible for income tax reporting.

NOTE I — GOODWILL

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not the fair value is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more likely-than-not that the fair value is less than the carrying value, then goodwill is tested further for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Management performed the required annual impairment test under the qualitative assessment methodology and determined that goodwill was not impaired.