March 30, 2014

To Our Shareholders:

2014 was a year of activity, change and progress for Universal Power Group. We entered the year having deliberately elected to de-list our common stock and focus management efforts on growing our volumes, reducing costs, improving operating performance and strengthening our balance sheet. I am pleased to report that, in 2014, we made meaningful progress in each of these areas, validating this decision.

The most evident progress was in operating performance, where we delivered significantly improved financial results for the full year ended December 31, 2014. On an 8.6 percent increase in net sales for the full year, UPG operating income increased 276% and net income swung from a loss of $51,000 to a profit of $844,000.

Sales growth, which took our revenues to $88.6 million from $81.6 million, reflected stronger performance across our battery, battery pack, and wire and cable businesses over the year. We were generally pleased by the balance between these business sectors and by the Company's ability to capitalize on the opportunities in each area. Revenue growth also reflects the integration of an acquisition specializing in higher-margin battery pack products. Looking forward, we expect to continue to build on each of these businesses as part of a balanced approach to our markets and will be opportunistic regarding additional acquisition opportunities.

Gross profit declined 1.1 percent to $15.9 million, compared with $16.1 million in 2013. This was a reflection of a lower gross profit margin of 17.9%, reflecting a shift in overall product mix toward lower-margin wire and cable items. Gradual improvement in gross margin rate is a long-term goal of management, even as we keep a balanced product offering.

Going into 2014, our expectation was that operating expenses would improve as the costs associated with regulatory requirements would be greatly reduced and management would be free to redirect its resources toward developing additional efficiencies in our inventory management, distribution and related areas. We also focused efforts on improving our position relative to bad debt provisions. We were successful in these efforts, as operating expenses were reduced by 9.4% to $14.1 million.

As a result of this business strategy, UPG reported full year 2014 operating income of $1.8 million and pre-tax income of $1.5 million, compared to operating income of $467,000 and pre-tax income of $50,000 in 2013. Generally, the reported increase in operating income is the product of stronger revenues and lower operating expenses more than offsetting unfavorable gross margin due to mix.

For 2014, UPG reported sharply improved net income of $844,000, or $0.17 per diluted share, compared to a net loss of $51,000, or ($0.01) per diluted share in 2013. While we are far from satisfied with the net income margin and long term return performance represented by this improvement, UPG is clearly focused on the right metrics and turning the business toward continued improvement in sustainable profitability in the future.

It is worth noting that, in February of 2015, UPG lost one of its largest customers when Radio Shack filed for bankruptcy. The immediate impact on our operations was muted, as we were able to manage through inventory and related investments without significant write downs affecting the earnings stream. However, the loss of this relatively high-margin volume presents us with a singular challenge in 2015 as we seek to replace this business with other customers and product lines.

Perhaps less visible, but equally important for 2014, are the balance sheet improvements that were accomplished during the year. While our topline grew at a high-single digit rate, 2014 year-end inventory was $24.2 million, a decrease of $789,000 from $25.0 million at December 31, 2013. As a result, inventory turns increased from 2.44 in fiscal 2013 to 3.22 times in 2014, an improvement of 35 days.
We are convinced that further improvement is available as we refine our distribution business and improve our relationships and contracts with our partners in the supply chain.

We were also very pleased that accounts receivable remained flat at $12.1 million while accounts payable increased only slightly, to $8.5 million from $7.7 million during the period, reflecting improved management of the cash conversion cycle. As a result, sales growth was sustainable with a stable working capital investment of $23.9 million.

Turning to our debt position, UPG was able to reduce our line of credit borrowings to $4.6 million at December 31, 2014 from $7.6 million at the end of 2013. Long term liabilities also declined by $905,000 leaving UPG in a considerably stronger balance sheet position than a year ago.

Over the coming year, UPG will continue to focus on operating improvement. We will strengthen our partnerships with suppliers and customers to improve inventory management and create distribution efficiencies. We will pursue a balanced business model that continues to invest in growth in all three of our principal business lines, both organically and through acquisition. We will seek new business to replace the lost Radio Shack volumes. And we will manage the balance sheet carefully to preserve the operating efficiencies gained over the past 12 months.

On behalf of the entire management team and our Board of Directors, I would like to thank our employees for their devotion, enthusiasm, and continuous efforts toward exceptional performance, as well as our shareholders for their support. Our future remains vibrant with a broad array of opportunities, and our strategic plans reflect optimism, excitement and dedication to our operational and financial success in 2015.

Ian Edmonds
President and Chief Executive Officer

Forward-Looking Statements

Statements in this document that are not statements of historical or current fact constitute "forward-looking statements." Such forward-looking statements involve known and unknown risks, uncertainties and other unknown factors that could cause the Company's actual operating results to be materially different from any historical results or from any future results expressed or implied by such forward-looking statements. In addition to statements that explicitly describe these risks and uncertainties, readers are urged to consider statements that contain terms such as "believes," "belief," "expects," "expect," "intends," "intend," "anticipate," "anticipates," "plans," "plan," to be uncertain and forward-looking. The forward-looking statements contained herein are also subject generally to other risks and uncertainties. Historical financial results are not necessarily indicative of future performance.

UNIVERSAL POWER GROUP, INC.
CONSOLIDATED BALANCE SHEET

ASSETS

(Amounts in thousands except share amounts)

	December 31, 2014	December 31, 2013
CURRENT ASSETS		
Cash and equivalents	$ 399	$ 1,180
Accounts receivable:		
Trade, net	12,063	12,012
Other	282	98
Inventories, net	24,178	24,967
Current deferred tax assets	655	854
Income tax receivable	-	443
Prepaid expenses and other current assets	748	1,063
Total current assets	38,325	40,617
PROPERTY AND EQUIPMENT		
Logistics and distribution systems	1,932	1,928
Machinery and equipment	490	484
Furniture and fixtures	881	911
Leasehold improvements	968	968
Vehicles	24	1
Total property and equipment	4,295	4,292
Less accumulated depreciation and amortization	(2,913)	(2,658)
Net property and equipment	1,382	1,634
GOODWILL	1,387	1,387
INTANGIBLES, net	311	416
NON-CURRENT DEFERRED TAX ASSETS	244	374
OTHER ASSETS	160	165
Total other assets	2,102	2,342
TOTAL ASSETS	$ 41,809	$ 44,593

UNIVERSAL POWER GROUP, INC.
CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

(Amounts in thousands except share amounts)

	December 31, 2014	December 31, 2013
CURRENT LIABILITIES		
Line of credit	$ 4,568	$ 7,643
Accounts payable	8,455	7,717
Accrued liabilities	515	1,054
Income tax payable	259	-
Current portion of capital lease and note obligations	571	731
Deferred rent	92	72
Total current liabilities	14,460	17,217
LONG-TERM LIABILITIES		
Capital lease and note obligations, less current portion	2,333	3,152
Deferred rent, less current portion	1,131	1,217
Total long-term liabilities	3,464	4,369
TOTAL LIABILITIES	17,924	21,586
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock - $0.01 par value, 50,000,000 shares authorized 5,020,000 shares issued and outstanding	50	50
Additional paid-in-capital	16,468	16,434
Retained earnings	7,367	6,523
Total shareholders' equity	23,885	23,007
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 41,809	$ 44,593

UNIVERSAL POWER GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands except per share amounts)

	Three Months Ended December 31, 2014 (unaudited)	Three Months Ended December 31, 2013 (unaudited)	Year Ended December 31, 2014	Year Ended December 31, 2013
Net sales	$ 21,472	$ 19,877	$ 88,613	$ 81,617
Cost of sales	17,631	16,067	72,729	65,551
Gross profit	3,841	3,810	15,884	16,066
Operating expenses	3,446	4,083	14,126	15,599
Operating income (loss)	395	(273)	1,758	467
Other income (expense)				
Interest expense	(58)	(66)	(238)	(366)
Other, net	(14)	(15)	15	(51)
Total other expense, net	(72)	(81)	(223)	(417)
Income (loss) before provision for income taxes	323	(354)	1,535	50
Provision for income taxes	(260)	78	(691)	(101)
Net income (loss)	$ 63	$ (276)	$ 844	$ (51)
Net income (loss) per share				
Basic	$ 0.01	$ (0.05)	$ 0.17	$ (0.01)
Diluted	$ 0.01	$ (0.05)	$ 0.17	$ (0.01)
Weighted average shares outstanding				
Basic	5,020	5,020	5,020	5,020
Diluted	5,199	5,020	5,094	5,020

UNIVERSAL POWER GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Years Ended December 31, 2014	Years Ended December 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 844	$ (51)
Items not requiring (providing) cash:		
Depreciation and amortization	361	453
Provision for bad debts	59	797
Provision for obsolete inventory	681	463
Deferred income taxes	329	(33)
Loss on disposal of property and equipment	—	44
Stock-based compensation	34	44
Changes in operating assets and liabilities:		
Accounts receivable – trade	(110)	(3,962)
Accounts receivable – other	(184)	359
Inventories	108	4,966
Income taxes receivable/payable	702	69
Prepaid expenses and other assets	320	(103)
Accounts payable	738	486
Accrued liabilities	(539)	668
Deferred rent	(66)	343
Net cash provided by operating activities	3,277	4,543
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(4)	(248)
Proceeds from sales of property and equipment	—	11
Net cash used in investing activities	(4)	(237)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net activity on line of credit	(3,075)	(4,545)
Payments on capital lease and note obligations	(979)	(650)
Net cash used in financing activities	(4,054)	(5,195)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(781)	(889)
Cash and cash equivalents at beginning of period	1,180	2,069
Cash and cash equivalents at end of period	$ 399	$ 1,180
SUPPLEMENTAL DISCLOSURES		
Income taxes paid	$ 76	$ 84
Interest paid	$ 241	$ 339
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment through landlord incentives	$ —	$ 946
Acquisition of property and equipment through capital lease	$ —	$ 345