Universal Mfg. Co. and Subsidiaries

Consolidated Financial Report
July 31, 2018

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

Contents

Independent Auditor's Report

Board of Directors
Universal Mfg. Co. and Subsidiaries

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Universal Mfg. Co. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of July 31, 2018 and 2017, 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 (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Universal Mfg. Co. and Subsidiaries as of July 31, 2018 and 2017, 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.

Emphasis of Matter Regarding Going Concern
The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 12 to the financial statements, the Company has a significant working capital deficit, a deficit in the stockholders' equity position and negative cash flows from operations, which raises substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans in regard to these matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

RSM US LLP

Omaha, Nebraska
November 19, 2018

Universal Mfg. Co. and Subsidiaries

Consolidated Balance Sheets
July 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 103,540	$ 67,780
Receivables:		
Trade receivables, less allowance of $185,474 and $118,208, respectively	2,814,044	6,458,818
Other receivables, net	155,171	249,586
Inventories, net	18,750,229	14,211,930
Prepaid expenses	168,662	203,420
Income tax receivable	30,970	186,172
Deferred income taxes	554,659	737,915
Total current assets	22,577,275	22,115,621
Property, plant and equipment, net	5,121,501	6,449,592
Other noncurrent assets:		
Intangibles, net of amortization	65,307	79,402
Goodwill	4,904,350	4,904,350
	4,969,657	4,983,752
Total assets	$ 32,668,433	$ 33,548,965
Liabilities and Stockholders' Equity		
Current liabilities:		
Outstanding checks in excess of bank balance	$ 83,317	$ 802,180
Lines of credit	13,510,855	8,308,135
Line of credit, related party	1,499,950	-
Current portion of long-term debt	1,615,715	595,831
Notes payable, related party	1,090,000	-
Accounts payable	4,873,883	3,641,144
Deferred revenue	6,601,612	4,155,118
Accrued expenses and other liabilities	2,459,611	2,288,503
Total current liabilities	31,734,943	19,790,911
Noncurrent liabilities:		
Long-term debt, less current portion	3,581,996	5,198,594
Deferred income taxes	554,659	737,915
Total noncurrent liabilities	4,136,655	5,936,509
Stockholders' equity:		
Common stock—$1 par value; 2,000,000 shares authorized; 876,067 shares issued and outstanding	876,067	876,067
Additional paid-in capital	923,326	923,326
Retained (deficit) earnings	(5,002,558)	6,022,152
Total stockholders' equity	(3,203,165)	7,821,545
Total liabilities and stockholders' equity	$ 32,668,433	$ 33,548,965

See notes to consolidated financial statements.

Universal Mfg. Co. and Subsidiaries

Consolidated Statements of Operations
Years Ended July 31, 2018 and 2017

	2018	2017
Net sales	$ 25,171,410	$ 43,370,806
Cost of goods sold	(27,547,952)	(39,193,699)
Gross (loss) profit	(2,376,542)	4,177,107
Operating expenses:		
Selling, general and administrative expenses	6,473,958	6,100,326
Other corporate operations	1,193,595	997,535
Total operating expenses	7,667,553	7,097,861
Operating loss	(10,044,095)	(2,920,754)
Other (expense) income:		
Interest expense	(984,699)	(540,507)
Loss on sale of assets	(78,365)	(6,800)
Other, net	56,171	(8,032)
Total other expense	(1,006,893)	(555,339)
Loss before income tax benefit	(11,050,988)	(3,476,093)
Income tax benefit	26,278	207,359
Net loss	$ (11,024,710)	$ (3,268,734)
Net loss per common share—basic and diluted	$ (12.58)	$ (3.75)

See notes to consolidated financial statements.

Universal Mfg. Co. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Years Ended July 31, 2018 and 2017

	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Total Stockholders' Equity
Balance, July 31, 2016	$ 866,067	$ 842,326	$ 9,290,886	$ 10,999,279
Net loss	-	-	(3,268,734)	(3,268,734)
Stock issuance	10,000	81,000	-	91,000
Balance, July 31, 2017	876,067	923,326	6,022,152	7,821,545
Net loss	-	-	(11,024,710)	(11,024,710)
Balance, July 31, 2018	**$ 876,067**	**$ 923,326**	**$ (5,002,558)**	**$ (3,203,165)**

See notes to consolidated financial statements.

Universal Mfg. Co. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended July 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net loss	**$ (11,024,710)**	$ (3,268,734)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**1,433,457**	1,450,593
Deferred income taxes	**-**	(251,318)
Loss on sale of assets	**78,365**	6,800
Noncash stock-based compensation	**-**	91,000
Impairment of inventory	**2,150,779**	-
Changes in assets and liabilities:		
Receivables and accounts payable, net	**4,971,928**	(4,911,933)
Income tax receivable	**155,202**	823,477
Inventories	**(6,689,078)**	(5,510,659)
Prepaid expenses	**34,758**	1,119,404
Deferred revenue	**2,446,494**	3,949,893
Accrued expenses and other liabilities	**171,108**	169,041
Net cash used in operating activities	**(6,271,697)**	(6,332,436)
Cash flows from investing activities:		
Purchases of property, plant and equipment	**(175,026)**	(107,981)
Proceeds from sales of property and equipment	**5,390**	1,900
Net cash used in investing activities	**(169,636)**	(106,081)
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balance	**(718,863)**	602,439
Net activity on lines of credit	**5,202,720**	6,366,405
Net activity on related-party line of credit	**1,499,950**	-
Proceeds from the issuance of long-term debt	**350,525**	-
Proceeds from the issuance of related-party notes payable	**1,090,000**	-
Repayment of long-term debt	**(947,239)**	(495,751)
Net cash provided by financing activities	**6,477,093**	6,473,093
Net increase in cash and cash equivalents	**35,760**	34,576
Cash and cash equivalents:		
Beginning	**67,780**	33,204
Ending	**$ 103,540**	$ 67,780

(Continued)

Universal Mfg. Co. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended July 31, 2018 and 2017

	2018	2017
Supplemental disclosures of cash flow information:		
Cash paid for interest	**$ 836,924**	$ 520,455
Cash paid for income taxes, net	**$ 2,600**	$ 58,118
Supplemental disclosures of noncash information:		
Accounts payable settled through trade receivable reductions	**$ -**	$ 3,594,535

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 assemblies and other automotive parts for many makes and models of vehicles. The principal markets for Universal Mfg. Co.'s products are automotive dealers, jobbers, repair shops and other automotive parts distributors located throughout the United States and Canada.

Universal Mfg. Co.'s wholly owned subsidiary, Man Lift Mfg. Co., is engaged in the business of assembly, manufacture, distribution and sale of specialty Man Lift products and mobile hydraulic equipment, such as hazardous environment, scissor, pedestal, aerial, clean-room and explosion-proof lifts.

Universal Mfg. Co.'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 principal focus on armor for military equipment.

Universal Mfg. Co.'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 a 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 and 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. Interest is charged on past-due receivables at one of the divisions of the Company.

Inventories: Inventory is stated at the lower of cost (last-in, first-out (LIFO) method) or market, or the lower of cost (first-in, first-out (FIFO) method) or net realizable value.

Property, plant and equipment: Property, plant and equipment are generally recorded at cost, less accumulated depreciation. 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	Straight-line and declining-balance	7-10 years
Office equipment and software	Straight-line and declining-balance	3-7 years
Motor vehicles	Straight-line and declining-balance	3-5 years

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 the Company's 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. In January 2017, the Financial Accounting Standards Board (FASB) issued new guidance simplifying the test of goodwill for impairment. The new guidance requires a single-step quantitative test to measure impairment based on the excess of the Company's carrying amount over its fair value. The Company has elected early adoption of the new guidance as is permitted for annual impairment tests of goodwill performed after January 1, 2017. The Company evaluates goodwill for impairment at least annually in conjunction with its preparation for year-end, or more frequently if events or circumstances indicate that the fair value of the Company may be below its carrying amount. Goodwill of approximately $4.9 million is allocated to Man Lift Mfg. Co. As of the date of the Company's goodwill impairment analysis, Man Lift Mfg. Co.'s carrying amount of net assets was negative. As such, no further analysis was warranted and no impairment was recognized.

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 derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Act) was enacted into law. The Tax Act makes significant changes in U.S. tax law, including a reduction in the corporate tax rates from 35 percent to 21 percent. As a result of the Tax Act, the Company was required to revalue deferred tax assets and liabilities at the enacted rate. The other provisions of the Tax Act did not have a material impact on the Company's consolidated financial statements.

Revenue and cost recognition: The Company recognizes sales when there is evidence of a sales agreement, the delivery of goods has occurred, the sales price is fixed or determinable, and the collectibility of revenue is reasonably assured. The Company generally records sales upon shipment of product to customers and transfer of title under standard commercial terms. Certain customers have long-term contracts in place where billings are scheduled in advance of the delivery of product. Deferred revenue is recorded for these customers based on the terms of these contracts.

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)

Loss per common share: Basic loss per common share was computed by dividing the weighted-average number of common shares outstanding into net loss for each period presented. The basic weighted-average number of shares of common stock outstanding for the years ended July 31, 2018 and 2017, was 876,067 and 871,820, respectively. Common shares issuable upon exercise of stock options and conversion of convertible debt have not been included in the computation of diluted loss per share because their inclusion would have reduced the loss per common share applicable to the net loss for all periods presented.

Use of estimates: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), 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 November 19, 2018, the date on which the consolidated financial statements were available to be issued.

Recently issued accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The updated standard will replace most existing revenue recognition guidance for 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 No. 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 the fiscal year beginning on August 1, 2019. In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606)*: *Narrow-Scope Improvements and Practical Expedients,* providing additional clarification on specific aspects of the new revenue guidance. The Company has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. This ASU simplifies the presentation of deferred income taxes by eliminating the requirement for entities to separate deferred tax liabilities and assets into current and noncurrent amounts in classified balance sheets. Instead, it requires deferred tax assets and liabilities be classified as noncurrent in the balance sheet. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2017. The Company has not yet selected a transition method and is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The new standard is effective for fiscal years beginning after December 15, 2019. The Company is in the process of evaluating the impact of this new guidance.

Note 2. Inventories

Inventories consisted of the following as of July 31:

	2018	2017
Inventories (on an average-cost basis):		
Product core	$ 1,977,827	$ 1,712,955
Raw materials	1,306,805	1,154,414
Finished small parts	1,941,403	2,047,455
	5,226,035	4,914,824
LIFO reserves	(1,083,468)	(991,781)
Inventories at LIFO	4,142,567	3,923,043
Work in process at FIFO	9,410,951	5,412,553
Other inventories, principally FIFO	5,978,288	5,520,297
Obsolescence reserves	(781,577)	(643,963)
	$ 18,750,229	$ 14,211,930

During the year ended July 31, 2018, the Company recorded an impairment of certain inventory of approximately $2,151,000, which is included in cost of goods sold in the consolidated statement of operations. No such impairment of inventory was noted during the year ended July 31, 2017.

Note 3. Property, Plant and Equipment

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

	2018	2017
Land	$ 68,279	$ 68,279
Buildings, leasehold improvements, and land improvements	1,525,866	1,531,791
Machinery and equipment	9,371,204	9,321,515
Office equipment and software	980,873	933,509
Motor vehicles	193,353	193,353
	12,139,575	12,048,447
Less accumulated depreciation	(7,030,070)	(5,689,851)
	5,109,505	6,358,596
Construction in progress	11,996	71,996
Property held for future use	-	19,000
	$ 5,121,501	$ 6,449,592

Depreciation expense was $1,419,362 and $1,436,499 for the years ended July 31, 2018 and 2017, respectively.

Note 4. Lines of Credit

As of July 31, 2018, the Company had agreements with Security First Bank for two lines of credit up to $4,500,000 and $10,000,000, respectively. Maximum borrowing under the lines of credit is limited to the lesser of $14,500,000 or a borrowing base calculation ($13,389,784 at July 31, 2018). The approved lines of credit are available until August 28, 2018 and October 1, 2018, respectively. The lines of credit accrue interest on the outstanding principal balances at an annual variable rate equal to *The Wall Street Journal* U.S. prime rate plus 0.50 percent (5.50 percent as of July 31, 2018). The lines of credit are secured by blanket security agreements over the general business assets of the Company.

As of July 31, 2018, the Company had agreements with three board members for a line of credit up to $1,500,000. The approved line of credit is available until October 24, 2018, and accrues interest on the outstanding principal balance at an annual rate of 15 percent. This line is subordinate to the lines of credit with Security First Bank.

Note 5. Long-Term Debt

Long-term debt as of July 31 consists of the following:

	2018	2017
Capital lease to Snap36, LLC, payable in monthly installments, maturing January 2019	$ 39,417	$ 86,000
Note payable to Security First Bank, interest fixed at 4%, payable in monthly installments, maturing August 2024	1,303,838	1,492,028
Note payable to Security First Bank, interest fixed at 4.25%, payable in monthly installments, maturing March 2020	2,854,456	3,216,397
Note payable to Ultra Machine & Fabrication, Inc., variable interest (5% at July 31, 2018), interest payable in monthly installments, principal due upon note maturing February 2019	1,000,000	1,000,000
Note payable to related party, interest fixed at 15%, principal due upon note maturing June 2019	490,000	-
Note payable to related party, interest fixed at 15%, principal due upon note maturing July 2019	600,000	-
Total long-term debt	6,287,711	5,794,425
Less current portion	2,705,715	595,831
	$ 3,581,996	$ 5,198,594

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

Years ending July 31:	
2019	$ 2,706,000
2020	2,680,000
2021	213,000
2022	222,000
Thereafter	467,000
	$ 6,288,000

Substantially all assets of the Company are pledged as security for the long-term debt with Security First Bank. The Security First 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 without bank consent.

On July 1, 2018, the Company entered into a convertible subordinated debt agreement with a related party for the principal amount of $490,000. The note bears interest at a fixed rate of 15 percent. Interest is payable quarterly with the outstanding principal due in June 2019. The holder of the note may convert the note, in whole or in part, into common stock of the Company at a conversion price of $7.00 per share at any time prior to maturity.

Note 6. Income Taxes

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

	2018	2017
Current benefit (expense):		
Federal	$ 32,278	$ (35,959)
State	(6,000)	(8,000)
Deferred benefit (expense)	-	251,318
	$ 26,278	$ 207,359

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

	2018	2017
Long-term liabilities	$ (554,659)	$ (737,915)
Current assets	554,659	737,915
	$ -	$ -

The primary temporary differences that cause deferred income taxes are net operating losses, accelerated depreciation and amortization for tax purposes and nondeductible accruals for uncollectible receivables, inventory reserves, warranties and self-funded insurance.

The primary permanent differences that cause book benefit to differ from the expected tax return benefit are changes in the valuation allowance of deferred tax assets as well as the impact of the federal tax rate change.

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 2013.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended July 31, 2018 and 2017, the Company did not recognize any interest or penalties. As of July 31, 2018 and 2017, the Company did not have any balances accrued for interest or penalties.

Note 7. Employee Benefits

The Company sponsors a 401(k) plan, which is available to all employees who are at least 21 years of age and have completed at least 60 days of service. Employees can contribute up to 100 percent of their compensation to the plan. The Company will provide a matching contribution equal to employee contributions up to a maximum of 3 percent. The 401(k) plan was amended in January 2017 to allow for a safe harbor match. Beginning in January 2017, the Company matches dollar for dollar on the first 3 percent and then 50 cents on the dollar on the next 2 percent. Total expenses for the Company under the plan were approximately $152,000 and $160,000 for the years ended July 31, 2018 and 2017, respectively.

Note 8. Union Agreement

The Company entered into an agreement with the United Automobile, Aerospace and Agricultural Implement Workers of America's (UAW) Amalgamated Local 838 International Union (Union). The Union agreement shall remain in full force and is effective from May 6, 2016, until and including May 5, 2019, and from year to year thereafter unless either party desiring to amend or terminate the Union agreement shall serve upon the other written notice.

Note 9. 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, 2018 and 2017, was approximately $1,136,000 and $961,000, respectively.

Minimum payments for operating leases having initial or remaining noncancelable terms in excess of one year are as follows:

Years ending July 31:	
2019	$ 773,000
2020	767,000
2021	767,000
2022	447,000

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 10. 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 that, 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, 2018, the Company had one customer that accounted for 15 percent of consolidated net sales. There was $17,796 due from this major customer at July 31, 2018. For the year ended July 31, 2017, the Company had two customers that accounted for 41 percent of consolidated net sales. There was $757,000 due from these major customers at July 31, 2017.

The Company maintains its cash in bank deposit accounts that, 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 11. Related-Party Transactions

An employee and director 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 for which the Company incurred expense of $46,000 and $45,000 in the years ended July 31, 2018 and 2017, respectively. Interest expense on related-party debt of approximately $123,000 was recorded in the year ended July 31, 2018. There was approximately $78,000 of accrued interest payable to related parties as of July 31, 2018.

Note 12. Going Concern

The Company has approximately $17.7 million of long-term debt due during fiscal year 2019, which includes the $13.5 million in lines of credit that that have subsequently become due prior to the report issuance. The Company has a significant working capital deficit, a deficit in the stockholders' equity position and negative cash flows from operations, which raises substantial doubt about its ability to continue as a going concern. The Company is pursuing options with various entities to refinance the existing indebtedness such that the maturity date will be extended to 2019 or beyond. Refinancing of the debt is dependent on the ability to identify potential lenders, the willingness of lenders to refinance the debt, and the overall strength of the Company. The Company can give no assurances that the debt will be refinanced to a longer term; therefore, there is substantial doubt as to the Company's ability to continue as a going concern.

Any failure by the Company to refinance the debt could have a material adverse effect on the Company's financial position, results of operations, and cash flows and could substantially impair the Company's ability to continue as a going concern. The consolidated financial statements have been prepared assuming the Company will continue as a going concern and do not include any adjustments that might result should the Company be unable to continue as a going concern.

RSM