UNIVERSAL MFG. CO.

Annual Report

2007

President's Message to Our Stockholders

The highlight of the fiscal year ended July 31, 2007, was the sale of Universal Distribution LLC (UDLLC). The long proud history of this company is that of an association with the Ford Motor Company, so the decision to go forward with the sale was not easily made. However, the distribution program which was the business of UDLLC presented uncertain future opportunities. The sale provides the opportunity to concentrate on improvement and growth of the remanufacturing program.

Net income per share of outstanding common stock for the fiscal year ended July 31, 2007, was $4.41. This compares with earnings of $1.09 per share in 2006 and $1.21 in 2005. Earnings for 2007 reflect the gain and expense incurred by the sale of UDLLC, which accounts for approximately $3.70 per share.

Total sales were $21,050,015, compared to $22,050,213 the year before. Sales of the Company's **ReTech®** line of remanufactured products increased by $81,500. Sales by UDLLC decreased by about $1,100,000 due to the sale of the division eleven months into the fiscal year.

The top selling product line within the **ReTech®** remanufacturing program was transfer cases, with net sales of $3,950,000, compared to $3,480,000 the year before. **ReTech®** electric fuel pump net sales in fiscal year 2007 were $3,380,000 compared to $3,820,000 the prior year. **ReTech®** disc brake caliper net sales were $900,000 compared to $730,000 the prior year, and transfer case motors net sales remained at $185,000.

The **ReTech®** Platinum fuel pump line, a line of new fuel pump assemblies which was added to the product offering late last fiscal year, had sales of $815,000 compared to $300,000 the year before.

ReTech® product sales growth was affected last fiscal year by a number of factors. Several automotive Warehouse Distributor customers experienced reduced overall sales levels, reportedly due to high fuel prices and general economic conditions. Inventory reduction programs by some customers reduced purchases from us, as stocked parts were not repurchased when sold.

Several additional Warehouse Distributors were added to our customer base during the last fiscal year. This maintained reasonable fuel pump sales levels, and resulted in significant transfer case sales growth.

During fiscal year 2008, sales growth and improved earnings will be the primary goals. We believe we are in an excellent position to improve sales levels, with the recent addition of an experienced Regional Sales Manager in the Southwest. Manufacturer's Representatives who began representing our products within the last two years have identified potential new accounts, which we anticipate will be added to our list of active customers.

Efforts to improve earnings are on-going. Several process enhancements have been initiated, particularly in transfer case production, that allow for the reuse of more components which would otherwise be discarded, thereby reducing parts component costs. Review of sales policies and negotiations with freight vendors are ongoing to reduce the effects of freight cost increases due to rising fuel costs. Our in-house capability to test purchased components has been improved to assist in efforts to locate and maintain sources of high quality competitively priced component parts.

During fiscal 2007, we introduced a new company website. In addition to company information, company news, and product information, the website features part look-up capability and on-line catalogs. The website address is www.universalmanf.com.

Management is grateful to employees, customers, suppliers, and shareholders for their continued contribution to the Company. On a separate sheet you will find an invitation to our Annual Meeting, which we encourage you to attend.

Donald D. Heupel
President

Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations

The following discussion should be read in conjunction with the information set forth in the audited financial statements for the years ended July 31, 2007 and 2006.

In fiscal 2007, total company sales decreased by 4.5% due to the sale of Universal Distribution LLC, which resulted in 11 months of sales by that division. Total Company sales in fiscal 2006 grew by 10% primarily due to increased sales of ReTech branded remanufactured parts and diesel engine components.

Remanufactured engine unit sales in fiscal year 2007 were 962, which represents a decrease of 108 units. Engine unit sales in fiscal 2006 were 1,070.

Transmission unit sales decreased by 232 in fiscal year 2007 to 2,614 units. Transmission sales in fiscal 2006 were 2,846, a decrease of 679 from the previous year.

Fuel pump unit sales for fiscal year 2007 were 43,713, a decrease of 6,298 units. Sales in fiscal year 2006 were 50,011, and in fiscal year 2005 were 39,248.

Sales of remanufactured transfer cases in fiscal 2007 were 6,766 units, compared to 6,264 units in fiscal 2006, and 6,709 units in fiscal 2005.

The following table shows the comparison for the last five fiscal years of the Company's gross profit and selling, general, and administrative expenses as a percentage of net sales. The increased gross margin in fiscal 2007 was due to the recovery of LIFO reserve as a result of the sale of Universal Distribution LLC. The decrease in gross margin in fiscal 2006 was due to decreased revenue from the Regional Core Recovery Center (RCRC) program, to reduced income from net core deposits received, and to increased freight expense for parts purchased.

Selling, general, and administrative expenses in fiscal 2007 were higher as a percentage of sales due to increased staffing in the sales department and to increased freight rates. Selling, general, and administrative expenses in fiscal 2006 were slightly lower as a percentage of sales due to increased sales volume.

Fiscal Year	Gross Profit as Percentage of Net Sales	Selling, General, and Administrative Expenses as Percentage of Net Sales
2003	18.9%	23.4%
2004	22.0%	16.4%
2005	24.2%	16.3%
2006	22.5%	15.8%
2007	26.4%	16.6%

A three-year agreement between the Company and the United Auto Workers, which represents the production employees, was reached in May 2007. This agreement provided an approximate 5% wage increase over three years, and an increased contribution to Group Health Insurance costs by the employees.

Interest expense for fiscal year 2007 was $16,310 compared to interest expense of $17,728 in fiscal 2006. The lower cost was due to reduced bank borrowings throughout most of the 2007 fiscal year.

The ratio of current assets to current liabilities of 3.67 to 1 is higher than the ratio of 2.21 a year ago. This is due to the sale of Universal Distribution LLC.

The Company had no bank borrowings on July 31, 2007. It is possible that in order to maintain adequate inventories of distribution products, to take advantage of ReTech remanufacturing or other opportunities, or to pay for any facilities improvements, some continued debt will be required. There are no assurances that the current line of credit will be extended or increased in terms acceptable to the Company.

The Company is continuing to aggressively seek opportunities to expand the ReTech remanufacturing program, but future remanufacturing activities are uncertain.

Earnings per share of outstanding stock increased $3.32 per share during fiscal 2007. This increase was due to gain on the sale of Universal Distribution LLC.

Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations

On October 25, 2002, the Company filed a Form 15 Certification and Notice of Termination of Registration with the Securities and Exchange Commission (SEC) to deregister its common stock. As a result of this deregistration, the Company requested a voluntary delisting of its common stock from the NASDAQ Small Cap Market. The stock continues to be listed on the pink sheets using the symbol ufmg. It is the Company's understanding that some firms continue to make a market of the Company's stock. Quotations may be available on the Internet at website pinksheets.com, and on the Company's website universalmanf.com. The Company elected to deregister and to delist in order to reduce legal, accounting, and administrative costs related to continued SEC and NASD compliance and anticipated cost increases due to passage of new federal securities laws.

FORWARD LOOKING STATEMENTS
SAFE HARBOR

Statements that are not historical facts, including without limitation, statements about our confidence, strategies, expectations and beliefs, technologies and opportunities, industry and market segment growth, demand and acceptance of new and existing products, and return on investments in products and markets are forward looking statements that involve risks and uncertainties, including, without limitation, the effect of general economic and market conditions, customer requirements for our products, the continuing strength of the automotive industry, competitive pricing, increased competition, weather conditions, and other factors.

Independent Auditors' Report

To the Board of Directors
Universal Mfg. Co. and Subsidiaries
Algona, Iowa

We have audited the accompanying consolidated balance sheets of Universal Mfg. Co. (a Nebraska corporation) and subsidiaries as of July 31, 2007 and 2006, and the related consolidated statements of income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emmetsburg, Iowa
September 20, 2007

CONSOLIDATED BALANCE SHEETS

July 31, 2007 and 2006

ASSETS	2007	2006
CURRENT ASSETS		
Cash and cash equivalents	$ 5,336,964	$ 40,297
Accounts receivable		
Less allowance of $20,507 and $44,301, respectively	1,287,029	2,810,416
Note receivable	-	3,662
Inventories, at LIFO	3,214,672	4,594,389
Prepayments	23,796	33,474
Deferred income taxes	125,087	156,058
	9,987,548	7,638,296
OTHER NONCURRENT ASSETS		
Investment in Maxlog Capital Corporation	-	9,000
	-	9,000
PROPERTY, PLANT AND EQUIPMENT		
Land	100,499	100,499
Buildings	2,042,768	1,677,812
Machinery and equipment	810,384	850,355
Office equipment and software	409,992	551,774
Motor vehicles	148,925	428,842
	3,512,568	3,609,282
Less accumulated depreciation	2,232,302	2,567,514
	1,280,266	1,041,768
Plant under construction	5,527	101,692
	1,285,793	1,143,460
TOTAL ASSETS	$ 11,273,341	$ 8,790,756
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 41,400	$ 55,200
Accounts payable:		
Officer	85,245	-
Other	419,508	2,564,986
Dividends payable	81,600	81,600
Line of credit	-	100,000
Accrued taxes	2,090,417	641,912
	2,718,170	3,443,698
LONG-TERM DEBT, less current portion	-	41,400
DEFERRED INCOME TAXES	57,327	52,089
STOCKHOLDERS' EQUITY		
Common stock - $1 par value, 2,000,000 shares authorized, 816,000 shares issued and outstanding	816,000	816,000
Additional paid-in capital	17,862	17,862
Retained earnings	7,663,982	4,387,435
	8,497,844	5,221,297
Minority interest	-	32,272
	8,497,844	5,253,569
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 11,273,341	$ 8,790,756

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended July 31, 2007 and 2006

	2007	2006
NET SALES	$ 8,401,048	$ 8,319,548
COST OF GOODS SOLD	(6,404,302)	(5,932,028)
GROSS PROFIT	1,996,746	2,387,520
OPERATING EXPENSES		
Selling, general and administrative expenses	1,995,860	1,835,416
OPERATING INCOME	886	552,104
OTHER INCOME (EXPENSES)		
Interest and dividend income	18,107	-
Interest expense	(16,310)	(17,728)
Gain on sale of assets	110,914	16,510
Other, net	5,802	313
	118,513	(905)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	119,399	551,199
INCOME TAXES FROM CONTINUING OPERATIONS	44,178	225,989
INCOME FROM CONTINUING OPERATIONS	75,221	325,210
DISCONTINUED OPERATIONS		
Income from operations of discontinued component	2,012,311	938,217
Gain on sale of discontinued component	3,610,257	-
Income taxes	(2,094,842)	(375,287)
	3,527,726	562,930
NET INCOME	$ 3,602,947	$ 888,140
RETAINED EARNINGS, BEGINNING OF YEAR	$ 4,387,435	$ 3,776,735
DIVIDENDS	(326,400)	(277,440)
RETAINED EARNINGS, END OF YEAR	$ 7,663,982	$ 4,387,435
Basic and Diluted Income per Common Share from Continuing Operations	$ 0.09	$ 0.40
Basic and Diluted Income per Common Share from Discontinued Operations	4.32	0.69
Basic and Diluted Income per Common Share from Operations	$ 4.41	$ 1.09

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended July 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from continuing operations	$ 75,221	$ 325,210
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Income from discontinued operations	3,527,726	562,930
Gain on sale of discontinued component	(3,610,257)	-
Depreciation	138,448	142,643
Deferred income taxes	36,209	40,768
Minority interest in net earnings of subsidiary	56,496	9,152
Loss on disposal of other investment	9,000	-
Gain on sale of assets	(110,914)	(16,510)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Receivables	1,523,387	(135,956)
Inventories	1,379,717	(494,189)
Prepayments	9,678	(2,013)
Increase (Decrease) in:		
Accounts payable	(2,145,478)	(360,643)
Accrued expenses	1,448,505	230,932
Net cash provided by operating activities	2,337,738	302,324
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(359,237)	(301,324)
Proceeds from sale of discontinued component	3,610,257	-
Issuance of note receivable	-	(3,662)
Collections of notes receivable	3,662	-
Proceeds from sale of assets	189,370	27,195
Net cash provided by (used in) investing activities	3,444,052	(277,791)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(55,200)	(55,200)
Proceeds from line of credit	1,050,000	900,000
Repayment of line of credit	(1,150,000)	(800,000)
Dividends paid	(326,400)	(252,960)
Distributions to minority shareholder	(3,523)	(3,747)
Net cash used in financing activities	(485,123)	(211,907)
Net Increase (Decrease) in Cash and Cash Equivalents	5,296,667	(187,374)
Cash and Cash Equivalents at Beginning of Year	40,297	227,671
Cash and Cash Equivalents at End of Year	$ 5,336,964	$ 40,297

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Universal Mfg. Co. (the "Company") and its subsidiaries, Universal Distribution LLC ("UD") and Rainbo Co. LLC dba Value Independent Parts ("Rainbo LLC") have been engaged in the business of remanufacturing and/or distribution, on a wholesale basis, electric fuel pumps, transfer cases, calipers, Ford and Motorcraft engine assemblies, transmission assemblies, and other automotive parts for all 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.

In July, 2007, the Company sold its automotive parts distribution business (UD). The operations and cash flows of this component have been eliminated from the ongoing operations of the Company due to the sale transaction, and the Company will not have any continuing involvement in the activities of the distribution component. Therefore, the Company is reporting the activities of the distribution component as discontinued operations.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Universal Mfg. Co. and its subsidiaries, UD and Rainbo LLC. UD was owned 99% by Universal Mfg. Co. and 1% by the Company's president. During July 2007, UD was sold by the Company. All material intercompany transactions have been eliminated upon consolidation.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts Receivable

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.

Inventories

Inventories are stated at the lower of last-in, first-out (LIFO) cost or market. In addition, inventories are valued at original cost plus certain costs and expenses that relate to manufacturing and overhead. The inventory valuation for federal tax purposes is greater than the valuation recorded in accordance with accounting principles generally accepted in the United States of America due to the capitalization of general and administrative expenses in conformity with Internal Revenue Code, Section 263(A) and obsolescence reserves.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation expense is computed using accelerated methods for both financial reporting and tax purposes 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 years

Maintenance and repairs are charged to operations as incurred. Gains or losses are recognized at the time of disposal.

Long-Lived Assets

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 assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Income Taxes

Income taxes are accounted for using a liability method and provide for the tax effects of transactions reported in the consolidated financial statements including both taxes currently due and deferred. Deferred taxes are adjusted to reflect deferred tax consequences at current enacted tax rates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes arise from differences between the book and tax basis of plant assets, inventory obsolescence reserves, the allowance for bad debts, accrued self insurance liabilities and accrued vacation pay. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible, when the assets and liabilities are recovered or settled.

Revenue Recognition

The Company's revenue recognition policy requires the recognition of 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.

Use of Estimates

In preparing 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Income Per Common Share

Net income per common share for 2007 and 2006 was computed by dividing the weighted average number of shares of common stock outstanding into the net income. The weighted average number of shares of common stock outstanding for the years ended July 31, 2007 and 2006 were 816,000.

Reclassifications

Certain reclassifications have been made to the 2006 consolidated financial statements to conform with the 2007 presentation.

2. INVENTORIES

Inventories consisted of the following as of July 31, 2007 and 2006, respectively:

	2007	2006
FIFO balance:		
Product Core	$ 1,455,262	$ 1,451,415
Raw materials	1,613,670	1,563,724
Finished small parts	893,102	3,668,063
Total FIFO balance	3,962,034	6,683,202
LIFO reserve	(678,312)	(1,945,412)
Obsolescence reserve	(69,050)	(143,401)
Total inventories	$ 3,214,672	$ 4,594,389

3. FINANCING

Revolving Credit Agreements

As of July 31, 2007, the Company has a revolving line of credit with First American Bank for $1,700,000. The approved line of credit is available until November 29, 2007 at a rate of prime plus .50% (9.25% at July 31, 2007). Funds of $100,000 were advanced under the line at July 31, 2006.

Long-term debt

The Company signed a long-term note for $400,000 at 9% interest with Rainbo Oil. As of June 1, 2004, the note was reduced to $220,800 pursuant to the prepay of principal by the Company and the forgiveness of certain indebtedness by Rainbo Oil. The remaining principal is to be paid in equal monthly payments beginning June 1, 2004 and maturing on May 1, 2008. No interest accrues on the new amended note. If the unpaid balance is paid in full prior to May 1, 2008, the borrower shall be entitled to a discount of 7.5% off the gross unpaid balance. The balance of the note is $41,400 and $96,600 for the years ended July 31, 2007 and 2006, respectively.

Cash paid for interest totaled $16,310 and $17,728 for the years ended July 31, 2007 and 2006, respectively.

4. INCOME TAXES

Income taxes reflected in the Consolidated Statements of Income consist of the following:

	2007	2006
CONTINUING OPERATIONS:		
Federal income taxes:		
Current tax expense	$ 6,774	$ 147,502
Deferred tax expense	21,973	35,214
State income taxes:		
Current tax expense	1,195	37,719
Deferred tax expense	14,236	5,554
	44,178	225,989
DISCONTINUED OPERATIONS:		
Federal income taxes:		
Current tax expense	1,782,116	303,982
State income taxes:		
Current tax expense	312,726	71,305
	2,094,842	375,287
Total income tax expense	$ 2,139,020	$ 601,276

Cash paid for income taxes and estimated income taxes for 2007 and 2006 totaled $645,786 and $487,569, respectively.

Deferred federal and state tax liabilities and assets reflected in the Consolidated Balance Sheets are summarized as follows:

	2007	2006
Deferred Tax Liabilities		
Federal	$ 51,799	$ 41,671
State	8,094	10,418
Total Deferred Tax Liabilities	59,893	52,089
Deferred Tax Assets		
Federal	110,403	124,846
State	17,250	31,212
Total Deferred Tax Assets	127,653	156,058
Net Deferred Tax Assets (Liabilities)	$ 67,760	$ 103,969
Current Portion	$ 125,087	$ 156,058
Long-term Portion	(57,327)	(52,089)
Net Deferred Tax Assets (Liabilities)	$ 67,760	$ 103,969

The tax provision differs from the expense that would result from applying the federal statutory rates to income before income taxes because of state income taxes being deductible in determining taxable income.

5. EMPLOYEE BENEFITS

401(k) Plan

The Company sponsors a 401(k) plan which covers substantially all non-union employees. Company matching contributions are at the Company's discretion. Total expenses under the plan were approximately $31,209 and $28,500 for the years ended July 31, 2007 and 2006, respectively.

IRA Plan

The Company also sponsors an IRA plan for eligible employees after one year of service. The Company will make a matching contribution to the IRA. The Company's total matching contribution, or nearly matching contribution, to hourly employees is thirty five cents per hour to a maximum of 40 hours per week. Total expenses under the plan were approximately $13,435 and $12,300 for the years ended July 31, 2007 and 2006, respectively.

6. UNION AGREEMENT

The Company has entered into an agreement with the United Automobile Aerospace and Agricultural Implement Workers of America (UAW)'s Amalgamated Local 1016 ("Union"). The Union agreement shall remain in full force and is effective from May 6, 2007, until and including May 5, 2010, and from year to year thereafter unless either party desiring to amend or terminate the Agreement shall serve upon the other written notice not later than 60 days prior to May 6, 2010.

7. CONCENTRATION 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 part of the Company's business is with a major customer. The Company receives 9% of its sales from this customer. Amounts due from this company, included within accounts receivable on the consolidated balance sheets, were $232,340 and $87,725 at July 31, 2007 and 2006, respectively.

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.

8. DISCONTINUED OPERATIONS – SALE OF DISTRIBUTION

In July, 2007, the Company signed a sale agreement with AER Sales, L.P. for the sale of the Company's distribution division. In accordance with the agreement, the Company sold certain assets primarily consisting of inventory, properties and rights of the business and the purchaser assumed certain obligations. The sale resulted in a pretax gain of $3,610,257.

Summarized results of operations for the discontinued operations for the years ended July 31, 2007 and 2006, are as follows:

	2007	2006
Net sales	$ 12,648,967	$ 13,730,665
Cost of goods sold	(9,082,721)	(11,147,446)
Selling, general and administrative	(1,498,644)	(1,641,006)
Minority interest	(56,496)	(9,152)
Other, net	1,205	5,156
Income before income taxes	2,012,311	938,217
Gain on disposal of assets	3,610,257	-
Income taxes	(2,094,842)	(375,287)
Net income	$ 3,527,726	$ 562,930

9. EPA PROJECT COSTS

On May 6, 1994, the Company and the United States Environmental Protection Agency ("EPA") entered into a Consent Agreement and Consent Order ("Agreement") to settle a complaint filed against the Company in 1991. As required by the Agreement, the Company immediately paid a civil penalty of $32,955 and conducted a Supplemental Environmental Project ("SEP") during July and August of 1994 which involved sludge removal and pit cleaning at the Company's Plant at a cost of $91,076. After the sludge was removed, additional contamination was found in "Pit D", an enclosed underground wastewater containment under the Company's plant. On June 10, 1998, the Company received notice from the EPA authorizing submission of a detailed technical proposal for an additional SEP to ascertain information concerning environmental conditions at the Company's Plant. The EPA notice stated that if approved, the cost of the additional SEP work could be used to offset the remaining approximately $37,000 in deferred penalties owed by the Company to the EPA under the Agreement.

On August 6, 1998, the Company's consultant submitted a proposed SEP plan to the EPA detailing soil sampling work and groundwater studies to be conducted across the plant property over a 48-week period at an estimated cost of $62,000, yielding an anticipated $38,840 in after tax costs to the Company for offset against the remaining deferred penalty.

The EPA approved the consultant's proposal on September 11, 1998, and the work was completed in November of 1999 within budget. The consultant's report to the EPA disclosed chlorinated solvent contamination in the soil and groundwater only in the immediate area of "Pit D". The consultant recommended conversion of "Pit D" to a groundwater sump for removal and treatment of contaminated groundwater and continued monitoring groundwater on the Company's property to detect any migration of the contamination. The consultant recommended against removal of contaminated soils due to cost and access problems. To date the EPA has not responded to the consultant's recommendations, and the Company has no information concerning the cost or extent of any further work that EPA may require.

Executive Officers

Jeff A. Einfalt Chairman of the Board	**Donald D. Heupel** President	**Robert E. Scott** Secretary

Directors

Richard R. Agee, Owner and General Manager
Agee's Automotive Repair LLC
Lincoln, Nebraska

Donald L. Dunn, Executive Vice-President – Administration, Secretary & General Counsel
Chief Industries, Inc.
Grand Island, Nebraska

Jeff A. Einfalt, Retired
Lincoln, Nebraska

Ned L. Einfalt, Retired
Scottsbluff, Nebraska

R. Brad Harse, Principal
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Richard E. McFayden, Partner
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