UNIVERSAL MFG. CO.

Annual Report

2008

President's Message to Our Stockholders

Considering the economic uncertainties of the economy this past year, Universal Mfg. Co. performed quite well. Most facets of the automotive industry were affected by high fuel prices and other factors, and much of our customer base reported reduced business volume as a result, particularly during the later part of the fiscal year. However, we were able to expand our customer base and improve sales and earnings.

Net income per share of outstanding common stock for the fiscal year ended July 31, 2008, was $.41. Total earnings a year ago were $4.41. However, approximately $3.70 was the result of gain from the sale of Universal Distribution LLC, and another $.62 was from Universal Distribution LLC operations, which have discontinued. Continuing operations of Universal Mfg. Co. a year ago earned $.09.

Total sales were $9,930,328, compared to $8,401,048 the year before. While some of our customers reduced their purchases in response to the business levels they were experiencing, most of our larger customers increased their purchases. Also, new customers contributed $880,000 in sales dollars.

The top selling product line within the **ReTech®** remanufacturing program continues to be transfer cases, with net sales of $5,000,000 compared to $3,950,000 the year before. **ReTech®** electric fuel pump net sales in fiscal year 2008 were $3,550,000 compared to $3,380,000 the prior year. **ReTech®** disc brake caliper net sales were $1,200,000 compared to $900,000 the prior year, and transfer case motors net sales increased to $250,000 from $185,000.

The general automotive aftermarket continues to be challenging. A high percentage of our sales are to automotive aftermarket warehouse distributors, whose business is based on having broad product coverage and the capability of timely delivery. They will place their limited inventory investment dollars with those suppliers which are best able to support those criteria. Therefore, we need to provide a full line of high quality products which cover a broad range of vehicle applications, high order fill rates, timely shipments, and competitive prices.

During the past fiscal year, a substantial number of new part numbers were added to the product mix of our product lines, particularly brake calipers and transfer cases. Most of the part number additions were for newer vehicle applications as demand for those parts became apparent. This of course required investment in core stock, component parts, and finished assemblies.

Approximately two years ago, we introduced our Platinum fuel pump line, which was a line of new fuel pump assemblies. While sales volume of this line did increase each year, it did not meet expectations of either sales volume or market penetration.

Early in fiscal 2008-2009, an enhanced new fuel pump program was introduced. AFS (Advanced Fuel Systems) is a value alternative line of new electric fuel pumps priced to compete with the many import lines, plus has broader coverage than the Platinum line. We have worked closely with a United States based firm with solid engineering and quality control programs here and in China to develop AFS. The majority of the AFS product line is manufactured in China. The goal is to provide high quality replacement parts which are priced competitively with other low cost imported products.

During fiscal year 2009, maintenance of current customers as well as additional market penetration will be primary goals. Emphasis will be placed on developing programs with customers who are part of larger buying groups, as independent unaffiliated warehouse distributors are becoming fewer in number.

High fuel costs of course affect freight and travel costs, and indirectly result in price increases of purchased items. Negotiations with vendors limit increases when possible, and sales policies and product pricing are reviewed frequently.

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, 2008 and 2007.

In fiscal 2008, Company sales from continuing operations grew by 18% primarily due to increased sales of **ReTech**® branded remanufactured transfer cases and brake calipers. 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. **ReTech**® sales in fiscal 2007 increased by 1%.

Sales of remanufactured transfer cases in fiscal 2008 were 8,153 units, compared to 6,766 units in fiscal 2007, and 6,264 units in fiscal 2006.

Fuel pump unit sales for fiscal year 2008 were 42,699, a decrease of 1,014 units. Sales in fiscal year 2007 were 43,713, and in fiscal year 2006 were 50,011.

Brake caliper sales increased by 9,623 units in fiscal 2008. Brake caliper sales were 41,778 in fiscal 2008, 32,155 in fiscal 2007, and 26,413 in fiscal 2006.

The following table shows a 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 2008 was due to improved manufacturing efficiencies and to increased 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.

Selling, general, and administrative expenses in fiscal 2008 were higher as a percentage of sales than in fiscal 2007 due to increased travel expenses, increased freight costs, and increased sales staffing. Selling, general, and administrative expenses in fiscal 2007 were higher as a percentage of sales than in fiscal 2006 due to increased staffing in the sales department and to increased freight rates.

Fiscal Year	**Gross Profit as Percentage of Net Sales**	**Selling, General, and Administrative Expenses as Percentage of Net Sales**
2004	22.0%	16.4%
2005	24.2%	16.3%
2006	22.5%	15.8%
2007	26.4%	16.6%
2008	28.3%	25.2%

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 2008 was $6,408 compared to interest expense of $16,310 in fiscal 2007. The lower cost was due to reduced bank borrowings throughout most of the 2008 fiscal year.

The ratio of current assets to current liabilities of 7.73 to 1 is higher than the ratio of 3.67 a year ago. This is due to taxes payable a year ago.

The Company had no bank borrowings on July 31, 2008. It is possible that in order to maintain adequate inventories, to take advantage of **ReTech®** remanufacturing, marketing, 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 from continuing operations increased $.32 per share during fiscal 2008. This increase was due to increased sales and improved gross margins.

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, 2008 and 2007, 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, 2008 and 2007, 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.

Kiesling Associates LLP

Emmetsburg, Iowa
September 22, 2008

CONSOLIDATED BALANCE SHEETS

July 31, 2008 and 2007

ASSETS	2008	2007
CURRENT ASSETS		
Cash and cash equivalents	$ 2,331,095	$ 5,336,964
Accounts receivable		
Less allowance of $32,512 and $20,507, respectively	1,800,814	1,287,029
Prepaid income taxes	118,134	-
Inventories, at LIFO	3,963,095	3,214,672
Prepayments	16,548	23,796
Deferred income taxes	125,768	125,087
	8,355,454	9,987,548
PROPERTY, PLANT AND EQUIPMENT		
Land	67,529	67,529
Buildings	1,464,318	1,461,882
Machinery and equipment	884,613	810,384
Office equipment and software	390,272	409,992
Motor vehicles	85,848	148,925
	2,892,580	2,898,712
Less accumulated depreciation	1,956,894	1,972,457
	935,686	926,255
Plant under construction	-	5,527
Property held for future use	343,477	354,011
	1,279,163	1,285,793
TOTAL ASSETS	$ 9,634,617	$ 11,273,341
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	$ -	$ 41,400
Accounts payable:		
Officer	-	85,245
Other	442,270	419,152
Dividends payable	81,600	81,600
Accrued taxes	551,082	2,090,773
	1,074,952	2,718,170
DEFERRED INCOME TAXES	57,154	57,327
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	7,668,649	7,663,982
	8,502,511	8,497,844
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 9,634,617	$ 11,273,341

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

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended July 31, 2008 and 2007

	2008	2007
NET SALES	$ 9,930,328	$ 8,401,048
COST OF GOODS SOLD	(7,124,882)	(6,404,302)
GROSS PROFIT	2,805,446	1,996,746
OPERATING EXPENSES		
Selling, general and administrative expenses	2,500,644	1,995,860
OPERATING INCOME	304,802	886
OTHER INCOME (EXPENSES)		
Interest and dividend income	139,391	18,107
Interest expense	(6,408)	(16,310)
Gain on sale of assets	15,500	110,914
Other, net	50,692	5,802
	199,175	118,513
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	503,977	119,399
INCOME TAXES FROM CONTINUING OPERATIONS	172,910	44,178
INCOME FROM CONTINUING OPERATIONS	331,067	75,221
DISCONTINUED OPERATIONS		
Income from operations of discontinued component	-	2,012,311
Gain on sale of discontinued component	-	3,610,257
Income taxes	-	(2,094,842)
	-	3,527,726
NET INCOME	$ 331,067	$ 3,602,947
RETAINED EARNINGS, BEGINNING OF YEAR	$ 7,663,982	$ 4,387,435
DIVIDENDS	(326,400)	(326,400)
RETAINED EARNINGS, END OF YEAR	$ 7,668,649	$ 7,663,982
Basic and Diluted Income per Common Share from Continuing Operations	$ 0.41	$ 0.09
Basic and Diluted Income per Common Share from Discontinued Operations	-	4.32
Basic and Diluted Income per Common Share from Operations	$ .41	$ 4.41

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended July 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from continuing operations	$ 331,067	$ 75,221
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Income from discontinued operations	-	3,527,726
Gain on sale of discontinued component	-	(3,610,257)
Depreciation	124,608	138,448
Deferred income taxes	(854)	36,209
Minority interest in net earnings of subsidiary	-	56,496
Loss on disposal of other investment	-	9,000
Gain on sale of assets	(15,500)	(110,914)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Receivables	(513,785)	1,523,387
Inventories	(748,423)	1,379,717
Prepayments	(110,886)	9,678
Increase (Decrease) in:		
Accounts payable	(62,127)	(2,145,478)
Accrued expenses	(1,539,691)	1,448,505
Net cash provided by (used in) operating activities	(2,535,591)	2,337,738
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(117,978)	(359,237)
Proceeds from sale of discontinued component	-	3,610,257
Collections of notes receivable	-	3,662
Proceeds from sale of assets	15,500	189,370
Net cash provided by (used in) investing activities	(102,478)	3,444,052
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(41,400)	(55,200)
Proceeds from line of credit	575,000	1,050,000
Repayment of short-term borrowings	(575,000)	(1,150,000)
Dividends paid	(326,400)	(326,400)
Distributions to minority shareholder	-	(3,523)
Net cash used in financing activities	(367,800)	(485,123)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,005,869)	5,296,667
Cash and Cash Equivalents at Beginning of Year	5,336,964	40,297
Cash and Cash Equivalents at End of Year	$ 2,331,095	$ 5,336,964

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2008 and 2007

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") 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 consolidated financial statements include the accounts of the parent company Universal Mfg. Co. and its subsidiaries, Universal Distribution LLC (UD) and Rainbo Co. LLC. (Rainbo). 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 in 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 2008 and 2007 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, 2008 and 2007 were 816,000.

Reclassifications

Certain reclassifications have been made to the 2007 consolidated financial statements to conform with the 2008 presentation.

2. INVENTORIES

Inventories consisted of the following as of July 31, 2008 and 2007, respectively:

	2008	2007
FIFO balance:		
Product core	$ 1,199,098	$ 1,455,262
Raw materials	1,947,104	1,613,670
Finished small parts	1,683,281	893,102
Total FIFO balance	4,829,483	3,962,034
LIFO reserve	(720,461)	(678,312)
Obsolescence reserve	(145,927)	(69,050)
Total inventories	$ 3,963,095	$ 3,214,672

3. FINANCING

Revolving Credit Agreements

As of July 31, 2008, the Company has a revolving line of credit with First American Bank for $1,700,000. The approved line of credit is available until December 1, 2008 at a rate of prime plus .25% (5.25% at July 31, 2008).

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 was $41,400 for the year ended July 31, 2007 and was paid in full during 2008.

Cash paid for interest totaled $6,408 and $16,310 for the years ended July 31, 2008 and 2007, respectively.

4. INCOME TAXES

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

	2008	2007
CONTINUING OPERATIONS:		
Federal income taxes:		
Current tax expense	$ 165,006	$ 6,774
Deferred tax expense (benefit)	(3,150)	21,973
State income taxes:		
Current tax expense	8,758	1,195
Deferred tax expense	2,296	14,236
	172,910	44,178
DISCONTINUED OPERATIONS:		
Federal income taxes:		
Current tax expense	-	1,782,116
State income taxes:		
Current tax expense	-	312,726
	-	2,094,842
Total income tax expense	$ 172,910	$ 2,139,020

Cash paid for income taxes and estimated income taxes for 2008 and 2007 totaled $1,855,781 and $645,786, respectively.

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

	2008	2007
Deferred Tax Liabilities		
Federal	$ 54,999	$ 51,799
State	6,110	8,094
Total Deferred Tax Liabilities	61,109	59,893
Deferred Tax Assets		
Federal	116,751	110,403
State	12,972	17,250
Total Deferred Tax Assets	129,723	127,653
Net Deferred Tax Assets	$ 68,614	$ 67,760
Current Portion	$ 125,768	$ 125,087
Long-term Portion	(57,154)	(57,327)
Net Deferred Tax Assets	$ 68,614	$ 67,760

Prepaid income taxes 0f $118,134 appearing on the Consolidated Balance Sheets at July 31, 2008, reflect overpayments of estimated taxes.

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 and work opportunity credits.

5. EMPLOYEE BENEFITS

401(k) Plan

The Company sponsors a 401(k) plan which covers substantially all non-union employees. Matching contributions are at the Company's discretion. Total expenses for the Company under the plan were approximately $26,000 and $31,000 for the years ended July 31, 2008 and 2007, 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 $15,000 and $13,500 for the years ended July 31, 2008 and 2007, 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 27.4% of its sales from this customer. Amounts due from this company, included within accounts receivable on the consolidated balance sheets, were $198,769 and $232,340 at July 31, 2008 and 2007, 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 COMPONENT

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 year ended July 31, 2007, is as follows:

	2007
Net sales	$ 12,648,967
Cost of goods sold	(9,082,721)
Selling, general and administrative	(1,498,644)
Minority interest	(56,496)
Other, net	1,205
Income before income taxes	2,012,311
Gain on disposal of assets	3,610,257
Income taxes	(2,094,842)
Net income	$ 3,527,726

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.

10. COMMITMENTS

The Company has entered into purchase commitments totaling approximately $130,000 for inventory to be placed into service during 2008.

Executive Officers

Robert E. Scott	**Donald D. Heupel**	**Donald L. Dunn**
Chairman of the Board	President	Secretary

Directors

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

Donald L. Dunn, Attorney
Of Counsel with
Rembolt Ludtke LLP
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