UNIVERSAL MFG. CO.
1128 LINCOLN MALL, SUITE 301
LINCOLN, NE 68508

DONALD L. DUNN
PRESIDENT & CEO
www.universalmfgco.com

To Shareholders of Universal Mfg. Co.

CONSOLIDATED THREE MONTH OPERATING REPORTS
FOR THE FIRST QUARTER ENDED OCTOBER 31, 2015
(Not audited by Independent Public Accountants)

BALANCE SHEET

	October 31, 2015	July 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 665,916	$ 33,783
Restricted Cash	115,022	156,268
Receivables		
Trade receivables, net	4,050,813	3,425,964
Other receivables, net	275,757	275,757
Inventories	12,018,369	26,352,133
Prepaid expenses	367,814	470,464
Income tax receivable	-	664,297
Deferred income taxes	573,479	573,479
Total Current Assets	18,067,170	31,952,145
Property, plant and equipment, net	8,519,575	8,847,415
Other Noncurrent Assets:		
Intangibles, net of amortization	104,068	107,591
Goodwill	4,904,350	4,904,350
	5,008,418	5,011,941
Total Assets	$ 31,595,163	$ 45,811,501
Liabilities and Stockholders' Equity		
Current Liabilities:		
Outstanding checks in excess of bank balance	-	358,284
Lines of credit	-	18,262,040
Current portion of long-term debt	509,909	509,909
Accounts payable	3,404,831	2,494,258
Income Tax Payable	758,987	-
Deferred revenue	601,097	1,042,885
Contingent consideration liability	4,500,000	4,500,000
Accrued expenses and other liabilities	2,692,197	2,177,284
Total Current Liabilities	12,467,021	29,344,660
Noncurrent Liabilities:		
Long term debt, less current portion	6,076,851	6,200,617
Deferred income taxes	404,498	404,498
Total Noncurrent Liabilities	6,481,349	6,605,115
Stockholders' Equity		
Common stock - issued and outstanding	816,000	816,000
Additional paid-in capital	150,423	137,517
Retained earnings	11,680,370	8,908,209
Total Stockholders' Equity	12,646,793	9,861,726
Total Liabilities and Stockholders' Equity	$ 31,595,163	$ 45,811,501

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CONSOLIDATED INCOME STATEMENT

	Quarter Ended October 31		Three Months Ended October 31	
	2015	2014	2015	2014
Sales	$38,582,916	$5,256,816	$38,582,916	$ 5,256,816
Earnings (Loss) Before Income Taxes	$ 4,200,246	$ (60,371)	$ 4,200,246	$ (60,371)
Income Taxes Expense (Benefit) Est.	$ 1,428,084	$ (63,441)	$ 1,428,084	$ (63,441)
Net Income	$ 2,772,162	$ 3,070	$ 2,772,162	$ 3,070
Basic Earnings per Share	$ 3.40	$ 0.00	$ 3.40	$ 0.00
Diluted Earnings per Share	$ 3.32	$ 0.00	$ 3.32	$ 0.00

The above are consolidated operating results of Universal Mfg. Co. ("UMC"), including its UMC-ReTech operating division ("ReTech") and its operating subsidiaries Man Lift Mfg. Co. ("MLM"), Metal Works Mfg. Co. ("MWM") and Ultra Armoring, LLC ("UA") (collectively, the "Company") for the 1st Quarter ending October 31, 2015 (the "Quarter") and the first three months of the current fiscal year ("YTD") as compared to the same periods for the prior year ("PY"). Net Income for the Quarter was $2,772,162 compared to $3,070 for the same Quarter PY.

The balance sheet and income statement have been prepared on the basis of a retrospective application of a voluntary change in accounting policy relating to revenue recognition of the MLM operation.

The new revenue recognition policy for MLM is to recognize revenue when there is evidence of a sales agreement, the delivery of goods has occurred, the sales price is fixed or determinable and the collectability of revenue is reasonably assured. This would generally occur upon shipment of product to customers and transfer of title under standard commercial terms.

The previous recognition policy for MLM was to recognize revenue on the percentage of completion method. Profit on contracts was realized on the difference between contract price and the actual costs incurred. Revenue was measured by the percentage of total costs incurred to date to estimated total costs for each contract.

The new accounting policy for MLM was adopted on August 1, 2015 and has been applied retrospectively. Revenue recognition will now be on the same basis for the consolidated companies. Management believes the change in policy will result in the financial report providing more relevant and no less reliable information because it leads to a more consistent treatment of revenue and expenses across all operations.

Given the recent acquisition and the relocation of the MLM business to Shelby, NC, it was considered appropriate to change the accounting policy so that all businesses operating at that location were recognizing revenue on a consistent basis.

The Quarter was materially and positively impacted by the fulfillment of UA's previously announced $31.1 Million contract with the US Special Operations Command. All revenue and expenses from the base contract were recognized in the current Quarter. The contract was completed on time and on budget generating significant income for the Company. UMC-ReTech, the rebranded name for our operating division, was negatively impacted by an unusually mild fall. MLM continues to play catch up from its relocation to our Shelby location and the resulting loss of engineers from our staff. MWM continues the work of developing a solid base of commercial customers with steady and repeatable business. UA, in addition to completing the substantial contract with SOCOM, continues in production phase of two contracts assumed at the time of the acquisition of UA in March of 2015.

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ReTech sales decreased 5.1% year over year for the Quarter. Sales were down virtually across the board over the same period prior year with only transfer cases showing a modest 1.6% increase in net sales. Material costs remain in line, however, labor efficiency was down due in part to the slower pace of orders. Sales expenses were down for the quarter driven by lower stock lift expenses and manufacturing representative commissions due to lower sales. Administrative expenses were essentially flat for the Quarter. Operations continue to be effective and in line with expected costs. The sales team has continued to evolve and new hires are beginning to have an impact. Operating income was just 0.5% off of budget and 1.4% lower than PY.

UMC Shelby operation, including MLM, MWM and UA, sales were 9.5% under budget due principally to several jobs being behind schedule; we anticipate catching up on this revenue in the 2nd Quarter. Operating income was at 13.7%, compared to a budget of 14.7%. We have no comparable numbers for PY. We continue to improve our ERP system to permit us better and more real time understanding of costs at these operations. Progress has been made but much remains to be done. The volume of work performed, including the complexity of the jobs has been challenging; however, significant progress has been made in all areas, engineering, purchasing and production. Backlog has declined due to substantial revenue; however, we continue to maintain a high level of sales potential.

Our balance sheet has again changed dramatically this quarter. All revenue and expenses related to the SOCOM contract have been realized and all debt related specifically to the contract has been repaid. Our Quarter ending level of accounts receivable and inventory, including work in process, should be more in-line with operations going forward; however, our business continues to be driven by large contracts that make revenue recognition “lumpy,” resulting in spikes in WIP prior to large shipments.

The Company’s cash flow increased nearly $950,000 this Quarter driven principally by substantial net income, a substantial decrease in inventory, an increase in income tax liability and offset by a substantial reduction in short term debt, over $18.4 Million. At the end of the Quarter we had no debt outstanding on any of our lines of credit.

Corporate expenses remain under budget due to lower incentive compensation accrual. Corporate expenses will remain elevated from prior years as we added a full time employee at the corporate office in the fourth quarter due to a substantial increase in number of employees (221 actual employees as of the end of the Quarter), benefit program activity and transactions resulting in a significant increase in activity at the corporate office. Our headcount is now four at the corporate office.