

To Shareholders of Universal Mfg. Co.

**CONSOLIDATED SIX MONTH OPERATING REPORTS
FOR THE SECOND QUARTER ENDED JANUARY 31, 2016**

(Not audited by Independent Public Accountants)

BALANCE SHEET

	January 31, 2016	July 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,946,324	\$ 33,783
Restricted Cash	-	156,268
Receivables		
Trade receivables, net	6,517,021	3,425,964
Other receivables, net	275,757	275,757
Inventories	8,014,621	26,352,133
Prepaid expenses	114,106	470,464
Income tax receivable	-	664,297
Deferred income taxes	573,479	573,479
Total Current Assets	19,441,308	31,952,145
Property, plant and equipment, net	8,200,917	8,847,415
Other Noncurrent Assets:		
Intangibles, net of amortization	100,544	107,591
Goodwill	4,904,350	4,904,350
	5,004,894	5,011,941
Total Assets	\$ 32,647,119	\$ 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	4,986,264	2,494,258
Income Tax Payable	281,662	-
Deferred revenue	618,472	1,042,885
Contingent consideration liability	4,500,000	4,500,000
Accrued expenses and other liabilities	2,882,708	2,177,284
Total Current Liabilities	13,779,015	29,344,660
Noncurrent Liabilities:		
Long term debt, less current portion	5,950,547	6,200,617
Deferred income taxes	404,498	404,498
Total Noncurrent Liabilities	6,355,045	6,605,115
Stockholders' Equity		
Common stock - issued and outstanding	816,000	816,000
Additional paid-in capital	163,104	137,517
Retained earnings	11,533,955	8,908,209
Total Stockholders' Equity	12,513,059	9,861,726
Total Liabilities and Stockholders' Equity	\$ 32,647,119	\$ 45,811,501

CONSOLIDATED INCOME STATEMENT

	Quarter Ended		Six Months Ended	
	January 31		January 31	
	2016	2015	2016	2015
Sales	\$ 16,426,463	\$ 5,897,292	\$ 55,009,379	\$ 11,154,108
Earnings (Loss) Before Income Taxes	\$ (221,840)	\$ 644,314	\$ 3,978,405	\$ 583,943
Income Taxes Expense (Benefit) Est.	\$ (75,425)	\$ 65,318	\$ 1,352,659	\$ 1,877
Net Income	\$ (146,415)	\$ 578,996	\$ 2,625,746	\$ 582,066
Basic Earnings per Share	\$ (0.18)	\$ 0.71	\$ 3.22	\$ 0.71
Diluted Earnings per Share	\$ (0.18)	\$ 0.69	\$ 3.14	\$ 0.70

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 January 31, 2016 (the “Quarter”) and the first six months of the current fiscal year (“YTD”) as compared to the same periods for the prior year (“PY”). Net Loss for the Quarter was \$146,415 compared to net income of \$578,996 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.

Net Sales for the Quarter were up substantially over PY (178.5%) driven by the acquisition of the operations in Shelby, NC. Unfortunately, gross profit was substantially less than historic and below budgeted expectations.

UMC-ReTech continued to be negatively impacted by an unusually mild winter. Sales were below both budget and PY, down 13.4% from same Quarter PY and 9.4% compared to same six month period PY. Gross margin was down over 5% compared to YTD PY driven principally by lower volume and warranty expense in our Transfer Case line. We replaced our Quality Assurance manager to address the warranty issues. We have seen early positive results from this change. During the Quarter, UMC-ReTech was also successful in

filling its Director of Sales position that has been open for nearly a year. Additional sales and consistent volume will materially and positively impact margin.

MLM sales continue to be extremely slow driven both by the relocation of the business and the resulting loss of engineering and production talent, as well as an unusually soft national economy for capital items. Knowledge base of our engineering and production staff in Shelby continues to grow and mature. We currently have two significant projects in our backlog that have the potential of being reoccurring products; at this point they are both development projects.

MWM sales were below budget, driven principally by a slowdown in work we were performing in the rail industry. We had no prior period to compare. However, MWM booked substantial work in the Quarter for delivery over the next 18 month period. Additionally, we contracted and commenced work for multiple new commercial customers in furtherance of our growth plan.

This Quarter, UA completed production and shipment of two contracts assumed at the time of the acquisition of UA in March of 2015. Sales for the Quarter were substantially over budget; however, YTD sales are right on budget. With regard to the contracts completed and shipped this Quarter, each contract could produce additional work; however, all work assumed has been produced and shipped. Margins were less than anticipated. Training a new staff, cleaning up the engineering data package that was purchased, and installing and growing a more robust quality department all negatively impacted margins on these jobs.

Our balance sheet as of the end of the Quarter has more normalized with virtually all revenue and expenses related to the large USSOCOM contract having been recognized and collected. Our Quarter ending level of accounts receivable is elevated due to substantial UA shipments the last two weeks of the month. Inventories are down substantially for the same reason. We anticipate the continuation of significant run up in inventory, including work in process, as we work on large jobs that remain in production for extended periods.

The Company's cash flow increased over \$3.2Million for the Quarter and \$4.1 Million YTD. 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 (215 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 remains at four at the corporate office.

Forward Looking Statements;

Statements herein that are not historical facts, including statements about the Company's confidence and strategies and the Company's expectations about future market opportunities, market demand or acceptance of the Company's products are forward looking statements that involve risks and uncertainties. These uncertainties include, without limitation, the effect of general economic and market conditions, customer requirement for our products, the continuing strength of the industries in which we operate, competitor pricing, maintenance of our current momentum, weather conditions and other factors.